THE CHAIN STORE PROBLEM

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A Critical Analysis

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PREFACE

In the past two decades, chain stores have grown to occupy a place of utmost importance in American business in general, and in our retailing system in particular. They have been absorbing a larger and larger share of the consumer's dollar, spreading into many lines of business, invading the smaller communities, and reaching across the entire country. In some lines of business, such as the retailing of food products, shoes, drugs, and variety merchandise, chain stores have encroached into the sphere of the independent merchant to a notable degree and profoundly influenced the attitude of the state, the public, the producer, and the local merchant toward this retailing colossus.

Bitter controversy has raged about the social and economic position of chain stores. Are they the "blessing" that their adherents claim, or are they the "menace" that their antagonists widely proclaim they are? Should they be restricted by legislation? Should they be left alone? Should they be regulated or taxed? These and other perplexing questions have been widely debated and discussed, but little headway has been made in providing acceptable solutions, largely because of the unscientific way in which the problem has been approached.

"The Chain Store Problem" is a critical and comprehensive analysis of chain stores as an integral and significant part of our distributive structure. An attempt has been made to present in an unbiased and strictly impartial manner the historical development of chains, their present status, their manifold contributions to business technique, economic progress, and consumer welfare, as well as the deep disturbances caused by them in our business, economic, and social systems. A mass of pertinent and original data and information has been assembled and analytically discussed in order that the position of chain stores in our national economy may be thoroughly understood and a sane attitude developed on the subject.

Up-to-date facts relating to prices in chain and independent stores, consumer attitudes toward these institutions, comparative

costs and profits, the taxation of chains, and the recent legislation affecting them are presented in this volume. An attempt has been made to cover all phases of the chain store situation, to analyze all prevailing points of view in a strictly scientific light, and to delve into the far-reaching effects of this twentieth century phenomenon.

In gathering material for this volume, original investigations conducted by the authors over a period of several years were the chief source, but liberal use was also made of existing publications on the subject. Whenever specific use was made of such material, credit was given and reference noted in the appropriate place. In addition, the authors desire to express grateful appreciation to the numerous individuals, business concerns, and governmental agencies that have contributed information and ideas utilized in this volume.

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CHAPTER I

INTRODUCTION

In print, in conversation, and in public address, everywhere, one encounters discussions of the chain store problem. Advertising mediums are constantly presenting claims and counterclaims on this question. While some rabid anti-chain advocates have been spouting fire over the air in their opposition to the movement, chain store protagonists have invaded the communication airways to broadcast their arguments of defense. On school and public platforms the subject has been heatedly debated during the past decade. Finally, the chain store problem has become a subject of wide discussion in the various legislative bodies—local, state, and national—where it continues to occupy a prominent position on their respective agendas.

In a word, the chain store problem is to the forefront. The controversy is raging, lines are being drawn for a continuation of the battle, and popular interest in the conflict is now at fever heat, where it has been during the past several years. It is probable that no other economic development of this century has been so highly praised by its proponents and so thoroughly condemned by those who consider the chain store an economic threat and a social menace. In view of all this, the current and lasting importance of the problem can scarcely be overemphasized.

Essential Definitions.—At least one of the reasons for the chain store controversy can be found in a misunderstanding of the essence of the chain store problem. Some of this misapprehension, in turn, can be laid to crass ignorance of the most rudimentary concepts inherent in the question. There is complete lack of knowledge even among the intelligent laymen of what a chain store is and of how one class of chains differs from

another, let alone the significance of the economic, social, and political problems to which chain stores have given rise.

Unfortunately, much of this misunderstanding has developed from attempts made by writers on the subject and so-called "researchers" to becloud the issue. Many of them very definitely seem to have had an axe to grind; others may have had a special purpose in mind to which they have fitted their concepts. For these reasons, it would seem fitting and proper at this juncture to define a few essential terms and to attempt to state the nature of the chain store problem. In this wise the scope of this discussion will be delimited and a clear understanding will be had of the fundamental questions involved.

What Is a Chain?—A considerable part of the difficulty to which we have alluded in the preceding paragraphs can be attributed to the confusion among the terms "chain store," "chain," and "chain system." Some authors have apparently attempted to define one or another of these terms without giving the slightest indication of their effort and, perhaps, without themselves being aware of the confusion in their own minds. That may explain in part some of the differences in definitions of chains to be found in the literature on the subject. Then there is the obvious attempt to understate or overemphasize the importance of chains in our distribution system, depending upon the objective to be accomplished. Moreover, the whole subject has very often been conceived so narrowly as to confine the term chain to retail distributive operations. Thus, although we are all familiar with certain kinds of chain stores and chain systems, the concept of what is a chain has never been adequately defined.

Among the most important factors to be considered in defining a chain are: the number of units in the organization, the type of merchandise handled or the kind of business, the plane of operation, the degree of central ownership, and the extent of centralized management. In its investigation of chain stores, the Federal Trade Commission has defined the term "chain" or "chain store" as "an organization owning a controlling interest in two or more establishments which sell substantially similar merchandise at retail."[1] In its definition the Commission uses two units as the point of departure from independent stores, confines the term

[1] Federal Trade Commission, "Chain Stores—Scope of the Chain Store Inquiry," p. 2, U.S. Government Printing Office, Washington, 1932.

to the retail field, emphasizes the idea of centralized ownership, lays down as a prerequisite the carrying of substantially similar lines of merchandise by the various units of the chain, and disregards any reference to centralized management. The other official definition of the term is that used by the Bureau of the Census in connection with its censuses of retail distribution. In its publications, this Bureau states that "chains are groups of 4 or more stores in the same general kind of business, owned and operated jointly, with central buying, usually supplied from one or more central warehouses."[1] On this basis, a chain is a group of four or more stores in the same kind or field of business, under the one ownership and management, and supplied from one or more distributing warehouses or directly from the manufacturer on orders placed by the central buying organization. Consequently, the two Federal agencies differ in their concept of what is a chain in at least two important respects: the minimum number of units necessary to classify a retail organization as a chain, and the necessity for centralized management, especially centralized buying.

One may now inquire: what difference does it make whether two or more units make a chain or four or more units are required as a basis? The answer to this becomes apparent only after some study and analysis. When the larger number of units is used as a basis in formulating the definition, the importance of chain stores is grossly understated. On that basis, there were in 1929, for example, but 148,037 chain store units, doing an annual business of $9,834 millions, or 20 per cent of all retail store sales. But when two and three store chains are included, the number of store units is increased by 64,583 and the volume of business is augmented by $4,276 millions or 9.7 per cent of all retail store sales. Similarly, the number of stores operated by chains during 1935 would be increased by 54,294 and the volume of chain store business by $2,612 millions, making the chain store volume, in 1935, 30.7 per cent of all retail store business instead of the 22.8 per cent reported by the Census. Another objection to the exclusion of two- and three-store organizations from among the chain store statistics is the arbitrary nature of the adoption of any number of units other than two. The artificial-

[1] Census of Business: 1935, Retail Distribution, Vol. IV, Types of Operation, p. 11, U.S. Department of Commerce, Washington, January, 1937.

ity of all this is evident from the following quotations taken from a source that is very definitely and necessarily pro-chain in sentiment. Referring to the multi-unit independent classification made by the Census it says:

> One classification of a retailer involves us in a very narrow and subtle distinction . . . It is often very difficult to differentiate between the so-called "multi-unit independent" and the "chain." As a matter of fact, the similarity between the two retailing systems probably presents a headache to the United States Bureau of the Census every time it conducts one of its censuses of retail distribution.[1]

The Census definition has also been totally disregarded in this respect by all states that have enacted chain store tax laws, all of them stepping up the tax on organizations with 2 or more stores rather than beginning with 4 or more units. Moreover, neither the chains nor the courts have questioned the authority of states on this point.

As far as the matter of centralized management is concerned, there is really no way of determining the extent of such management in any of the statistical surveys so far conducted by the Bureau of the Census. There was absolutely nothing on the schedules used for any of the three censuses of retail distribution that would give a clue to this question. Consequently, the only effect of such an imaginary distinction would be to lessen the importance of chain stores in our economic system. The only information collected on the schedule in 1935 along this line pertained to the "number of retail establishments or units owned by this organization, anywhere in Continental United States." In the schedules for the 1935 Census, provision was made for the first time for checking whether the reporting store is a unit of a branch store system, the determination being left entirely to the discretion of the reporting concern. During the previous censuses the schedule merely asked for the "number of establishments in same line of business owned by this organization, anywhere in the United States." Furthermore, it is questionable whether the degree of centralized merchandising should be construed as a distinguishing characteristic of chains. For example, no one would question the classification of the Allied

[1] Nichols, John P., "Chain Store Manual," 1936 ed., pp. 10–11, Institute of Distribution, Inc., New York, 1936.

Stores Corporation as a chain of 34 department stores, yet the central-office functions of this organization are limited to the control of general policies, while merchandising management is delegated to the individual stores of the corporation. The same objection holds to any attempt to differentiate between branch store systems and regular chains. While in practice there may be such a distinction on the ground that branch stores are merchandised from a dominant parent store, the Census schedules contained no information that would make such a distinction possible except for the checking space provided on the 1935 schedules. For all practical purposes, therefore, the definition of chain stores as developed by the Federal Trade Commission would seem by far the more useful, accurate, and practically workable.

Both of the official definitions of chains limit the term to retail stores. In a broad sense, however, the term "chain" must be applied to organizations owning a controlling interest in two or more establishments in the same line of business, regardless of whether these establishments are engaged in agriculture, commerce, finance, industry, or the sale of service. Outside of the province of trade, chains may be found in public utilities as illustrated by the Columbia Gas and Electric Co.; in banks, as exemplified by the Bancohio Corporation which operates a number of banks and branches thereof over a certain portion of the state of Ohio; in restaurants, such as Childs' and Harvey's; in theaters, as illustrated by the chains operated under the names of Loew and Fox; in hotels, as exemplified by the Statler and DeWitt chains; in sales finance as illustrated by the General Motors Acceptance Corporation; in personal finance as exemplified by the Household Finance Corporation; in barber shops; in beauty parlors; in photographic studios; and in laundries.

In the manufacturing field a number of plants producing similar items of merchandise are to be found under a single ownership, and even under centralized management, all of them operating as standardized units of a larger organization. Likewise, chains are commonly found in the wholesaling field, as illustrated by the McKesson & Robbins organization in the drug business. Most manufacturers' sales branches operating at wholesale are of the chain type, and so are the chain store warehouses maintained by so-called "retail chains."

As will be shown presently, most of our so-called retail chains are in reality chain store "systems" which engage not only in the retail distribution of goods but perform the wholesaling functions as well, often through separately operated wholesale establishments, and not infrequently also engage in manufacturing. For this reason, a distinction must be made, at least theoretically, between chain stores, chains, and chain store systems. The term "chain store," when used in a restricted and literal sense, applies to the retail merchandising unit of a chain and is further restricted to establishments dealing in commodities. The term "chain" refers to the organization operating two or more units of a given type (*i.e.*, retail, wholesale, manufacturing, financial, etc.) in the same line of business. The term "chain store system," on the other hand, is the most inclusive and embraces all operations of the company including retailing, wholesaling, and manufacturing activities as well as the other operations, such as transportation, which the system may be set up to perform. It is in this latter sense that all three terms are normally used, interchangeably, with varying degrees of emphasis.

Unless otherwise specified, all three terms will be used in this discussion interchangeably but will always be applied only to organizations engaged primarily in the retailing and only secondarily in the wholesaling of merchandise through controlled multi-unit establishments, of which at least two or more units operate on the retail plane and handle substantially similar lines of merchandise, regardless of whether the goods come from the farm, the factory, the mine, the oil-well, or the forest. No chains will be included in this discussion that are purely wholesale, financial, industrial, public utility, amusement, or service in character.

Classes of Chains.—Chains may be classified on a number of different bases. According to the kind of merchandise handled, we may have food chains, drug chains, tobacco chains, gasoline filling-station chains, department store chains, etc. Even these classifications may be subdivided as in the case of food chains, which may be subclassified into grocery chains, grocery and meat chains, meat chains, and confectionery chains. Shoe chains, for example, may further be divided into those handling men's shoes, women's shoes, or a general line of men's, women's and children's shoes.

A second basis for classifying chains is according to territory of operation. Chains are classified as local if substantially all of their stores are located in and around some one city. Sectional chains are those whose stores are located in some one section of the country, such as the New England States, the Pacific Coast States, the Gulf Southwest, or in any other geographic division. National chains are those whose interests are broader than those of any one section of the country.

A third and very important basis for classifying chains is on the plane of operation, depending upon the extent, if any, to which they engage in retailing and/or wholesaling. On this basis at least four distinct types of chains may be distinguished, as follows: (1) retail chains without warehouses; (2) retail chains with warehouses; (3) wholesale chains engaged in retailing; (4) wholesale chains proper.

Retail Chains without Warehouses.—This type of chain organization confines its activities entirely to the performance of retail functions. Such chains purchase their supplies either from wholesalers just as the independent merchants do, or direct from manufacturers. They do not maintain any warehouses, nor do they perform many of the wholesale functions. Most of these chains either operate on a small scale, *i.e.*, maintain a small number of units, or are engaged in lines of business such as millinery or jewelry, in which the performance of wholesale functions does not necessitate the maintenance of warehouses.

Many of the local chains, even in the grocery, hardware, and drug trades, operate without separate warehouses. Whatever warehousing may be required is likely to be done in connection with one of the larger stores, which often operates as the parent organization. Most of the wholesaling functions are normally passed on by these chains to either the wholesaler or the manufacturer.

Retail Chains with Warehouses.—The primary function of this type of chain is to retail merchandise, but such chains also maintain warehouses for the purpose of facilitating their retailing operations. All of the large chains in the grocery trade belong in this classification. In fact, the establishment of a warehouse by a chain system in such a trade is one of the first evidences of its successful development. Direct buying on anything approaching a large scale would be difficult without a warehouse. Similarly,

centralized merchandising control is greatly facilitated by the establishment of a warehouse which normally also houses the central offices.

The wholesale functions performed by the chain store warehouse are analogous, to some extent, to those of independent wholesalers. In fact, chain store warehouses often sell certain quantities of merchandise to outside retail organizations. Chain store warehouses are also commonly maintained by retail chains in the drug business, in the clothing trade, and in the tobacco business. Most chains operating a single warehouse are local in character. Their organization is relatively simple. The goods are assembled, stored, and delivered from the warehouse. All of the retail outlets are merchandised and frequently supervised from this central vantage point.

As the chain increases in size and extends its operations over an ever-widening area, a single warehouse becomes inadequate. The outlying stores, especially in the food chains, are frequently given some degree of autonomy in purchasing from local sources of supply. This condition represents a transition stage which is concluded upon the establishment of branch warehouses.

When the stage of branch warehouses is reached, a condition of a chain within a chain exists. The chain *stores* comprise a chain on the *retail plane* and *warehouses* constitute a *wholesale* chain. With the establishment of two or more warehouses, the problem of chain administration takes on a new complexion. In this connection there are two policies that have had wide usage. First, the same method of centralized control from a general administrative office may be followed as in the case of chains with a single warehouse. The purchasing and supervision are carried on from one of the headquarters, but with the additional necessity of supervising the warehouses as well as the retail stores. The second policy consists of setting up sectional or divisional offices, which are located in one of the warehouses, with the purpose of overseeing the activities of the several warehouses under their respective jurisdictions. The divisional offices, and frequently the individual warehouses, are given a high degree of autonomy within the chain's operating code. Some purchasing is done from general headquarters but the individual warehouses maintain their own buying departments which take care of many of the items handled by the stores attached to them. This is

particularly true in the case of perishable goods and other items that are especially adapted to the stores of a given area.

From the foregoing it appears that, with some exceptions, only the chains operating on a relatively small scale or those that confine their activities to lines of merchandise which do not necessitate much warehousing are strictly retailing institutions. As soon as the chain expands its activities to include the maintenance of a warehouse, it becomes a hybrid wholesaling-retailing organization. Thus, *most so-called "retail chains"* (having both retail stores and chain store warehouses) *are distinct merchandising institutions, possessing most of the characteristics of retail and wholesale institutions in addition to others which are distinctive and peculiar only to the chain form of organization.*

Wholesale-retail Chains.—In this classification are included chains which engage primarily in wholesaling but which also operate a number of retail outlets. This type of chain may be illustrated by various organizations in the petroleum trade, whose main business is to sell their products through a chain of bulk tank stations (that sell at wholesale) but which also operate some gasoline filling stations (that sell at retail). These chain systems differ from the typical retail chain in that the emphasis is upon the wholesale distribution of the refiner's products rather than upon retailing. Although some refiners are primarily interested in the retail filling stations (the bulk tank stations being used largely to supply the filling stations), in many cases the filling stations represent an incidental part of the business, a concession to temporary demand conditions, the interest of the refining companies centering instead upon the wholesale distribution of their products to independent filling stations, to wholesale petroleum marketers, to industrial consumers, and to the export field. A strong tendency in this direction has developed chain
result of the numerous chain store taxation laws, ad of the
recent years by the various states, as will be show more than
chapter. Such wholesale chains may also be f absorbed by
trades in which a few retail stores may be mai is defined and
for experimental purposes in order that ce not only that, but
merchandising may be tested prior to passi aim even a larger
form of "dealer-helps" to the regular retail i le, in the grocery

Wholesale Chains Proper.—Just as there a onsumer's dollar; in
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hain stores have over

only at wholesale. A large number of chains may be found in the wholesale field which confine their business entirely to wholesaling operations. In this group belong the wholesaling branches maintained by manufacturers for the disposal of their products. A number of such chains appear in the food industry, the plumbing business, the iron and steel trade, and in many other lines of business. There are also chains of agents, brokers, and commission merchants, all of which operate upon a wholesale plane either between the producer and the wholesaler or between the producer and retailer or industrial consumer. In the marketing of agricultural products there are chains of assemblers and country buyers including many grain elevators (line), milk and cream stations, and cooperative marketing associations. Wholesalers of the typical variety (service wholesalers or jobbers) likewise operate on a chain basis, as do some of the newer types of wholesale organizations such as cash-and-carry wholesalers and wagon distributors.

Voluntary Chains.—In addition to the types of chains just discussed, there are a number of borderline developments or hybrid types such as the cooperative or voluntary chains (groups of independent wholesale and retail establishments) which have adopted chain store methods for purposes of closer cooperation in the competitive struggle for business. There are two types of these cooperative chains that have come into prominence during recent years. The older type consists of groups of retailers who have joined together for the purpose of securing wholesale prices on their combined purchases. This is a form of business cooperation designed to give the individual stores certain advantages supposed to accrue to wholesalers and to other large-scale buyers. Such cooperative retail groups may or may not main-
.pervisi arehouses to facilitate their wholesaling activities. When
econd pol operate such warehouses, it is frequently difficult in
offices, which distinguish between them and independent wholesale
purpose of overs of the cash-and-carry variety, since both types
under their respec h the same functional basis and render similar
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of the items handled b or less closely knit merchandising organiza-

tion. Wholesalers have often taken this step as a means of self-preservation, realizing that their future is closely tied up with that of the independent retailers. By joint cooperation, frequently strengthened by binding contracts, it has proved possible to engage in advertising to better advantage, to economize in purchasing and delivery, and to perform other merchandising activities to the mutual benefit of the wholesaler and retailer members. The goal of all of the cooperative types of chain organizations is to enable the retail members to secure at least some of the advantages which the chains enjoy, at the same time retaining more or less independent ownership of the stores.

Voluntary chains are in reality not chains at all, because the retailers who are members thereof preserve their individual ownership of the stores which they operate. The members are merely bound by an agreement which can usually be terminated on a few days' notice. Not only is individual store ownership completely preserved, but most of the management is also left largely or entirely to the discretion of the individual member, although the latter is not so important a distinguishing characteristic. Because of this lack of controlling interest in the cooperating establishments, the Federal Trade Commission used a separate schedule for the collection of data from voluntary chains and always applied the word "cooperative" when the term "chain" was used in connection with these organizations.

Why Is There a Chain Store Problem?—As will be shown in the subsequent chapters, chain stores are in the United States a relatively recent development, whose growth has been short of the spectacular. From 1900 to 1929, a period of 28 years, chain stores have multiplied 2,800 per cent, and the growth has been consistent throughout the period. At the present time, chain stores take a substantial proportion of the total volume of the retail business of the country. Anywhere from 25 to more than 30 per cent of all retail store business is now being absorbed by the chain systems, depending upon how a chain is defined and on what basis the statistics were gathered. Not only that, but in certain lines of business, chain stores claim even a larger share of the business volume. For example, in the grocery trade, they claim more than 40 cents of the consumer's dollar; in the shoe business they do approximately 50 per cent of the total retail volume; and in the variety store field chain stores have over

90 per cent of the business. Thus, in certain fields chain store competition is being felt rather keenly by the independent merchant and the wholesaler who serves him. This condition is accentuated by the fact that chain stores are largely concentrated in urban communities. In some of our larger cities, they account for more than 70 per cent of the grocery business even though for the country as a whole the chain stores absorb only about 40 per cent of the grocery trade. This means that in certain cities and in certain lines of retail trade, the competition from chain stores is unusually severe, and the independent merchant seems unable to cope with the situation. Moreover, chain stores are now invading fields of operation which were heretofore untouched by the movement. They are entering in larger numbers into the smaller communities and are integrating their retailing operations not only with wholesaling but with manufacturing as well.

All of these circumstances have sharpened public interest in the chain store question. Their ubiquitous existence and their vital effect upon the present economic order make the public curious concerning the future and raise questions on what attitude to take to this development. Public interest is greatly heightened, naturally, by the activities of the various parties that are directly affected by and concerned with chain stores.

Nature of the Chain Store Problem.—In recent years the chain store problem has become one of public policy. Prior to that time the problem of the independent retailer was one of meeting successfully the competition from chain stores. It was one of management and relative efficiency, often leading to the formation of voluntary chains. The wholesaler's problem in meeting such competition was similar in character, and so was that of the manufacturer who relied principally upon the business of independent outlets. Likewise, it was the problem of the chains to meet effectively the competition from other types of retailing and from competing chains. An added problem for chains in recent years has been that of overcoming generally unfavorable public opinion. While these problems still remain, when one speaks of the chain store problem today, he is primarily concerned with it from a social point of view, *viz.*, from the standpoint of public policy.

From this angle, one is confronted with at least four alternatives:

1. Shall chain stores be let alone to fight the battle for the consumer's dollar, and let the winner in the competitive struggle be determined by the rules of the game, or what is worse, by the absence of rules to assure sportsmanlike conflict?

2. Shall chain stores be completely eliminated and, if so, how? Are such organizations a sufficient social menace to justify this drastic action and can such action be taken within the constitutional bounds of our state and Federal governments?

3. Shall the growth of chain stores be definitely curtailed and by what specific measures can this be accomplished? Is regulation for this and other purposes desirable?

4. Shall chain stores be permitted to function under legislative restrictions? To what extent shall such restrictions be effected? Shall the legislation be aimed at the curtailment of their growth or at the elimination of certain alleged abuses, and the equalization of existing inequities in tax burdens or in contributions to community life?

These are the questions posed by the chain store situation. They, in short, represent the composite that is the chain store problem. Just how to solve this problem, legislatures and others are at a loss, except as they are impelled by pressure groups to follow certain courses of action and are further stimulated by a desire for additional revenue to meet budget deficits. It should be apparent even to the unsophisticated that this problem cannot be handled satisfactorily without an objective approach and a complete understanding of all the facts in the case. To supply the scientific point of view and the essential knowledge for the solution of this problem is the purpose of the chapters that follow.

CHAPTER II

THE ORIGIN AND GROWTH OF CHAIN STORES

Early Traces of the Chain Store Idea.—Although the modern chain store is of comparatively recent origin, the chain idea of distribution has many forerunners and prototypes. According to available records, On Lo Cass, a Chinese business man, "owned a chain of a great many units in the Celestial Empire as early as 200 B.C."[1] Greek and Roman records indicate the existence of central ownership and management of retail establishments in the heyday of their respective civilizations. A poster found in Pompeii, destroyed in A.D. 79, advertised for lease a certain property which consisted of 900 retail shops.[2]

For more than two centuries, beginning with the fifteenth, the Fugger family of Augsburg, Germany, owned and operated an industrial and commercial organization which had in it many elements of the present-day chain system. In addition to manufacturing textile fabrics, mining, and banking, the House of Fugger also engaged in international trade and operated both wholesale and retail shops for the sale of its products, although in the later years its earnings came principally from dealings in money. As early as 1643 the Mitsui family of Japan started a chain system of apothecary shops, and to this day it is a potent factor in the drug business. Its interests now cover manufacturing, mining, banking, insurance, engineering, as well as merchandising in both foreign and domestic markets. It is generally regarded as the wealthiest and most powerful business in Japan today.[3]

Early Chains in the Americas.—The Hudson's Bay Company is without a doubt the oldest chain organization in the Western Hemisphere. It was chartered by the British Crown in 1670 and

[1] NYSTROM, P. H., "Retail Trade," Encyclopaedia of the Social Sciences, Vol. XIII, p. 35, The Macmillan Company, New York, 1934.

[2] *Ibid.*

[3] ORCHARD, J. E., "Mitsui," Encyclopaedia of the Social Sciences, Vol. X, p. 550, The Macmillan Company, New York, 1933.

began to establish trading posts on the North American continent prior to 1750. During the eighteenth and nineteenth centuries it operated such trading posts all over the Canadian Northwest. The company is still in existence. It now operates 10 modern department stores in Canada, maintains over 250 trading posts, navigates more than 50 vessels in Canadian waters, and is reputed to be one of the largest real estate owners in the dominion.[1] It is claimed that the second oldest chain in the Americas was founded in Brazil. More than a hundred years ago a Scotchman named Clarke emigrated to Brazil and opened a shoe store. As business grew he added other stores, forming the Campanhia Calcado Clarke which is still doing business and operates about 30 units in the principal cities of Brazil.[2]

Origin of Chain Stores in the United States.—The origin of chain stores in this country has been a subject of considerable dispute in some of the chain store litigation in recent years. Defenders of the chain system of merchandising have argued that the "constitutional right" to operate such a business has existed in this land "from time immemorial." This point of view has been challenged on the ground that "time immemorial" is vaguely mythological rather than definitely chronological. While in this land of freedom of economic opportunity a person or firm has an inalienable right to engage in the sale of any common commodity, the constitutional right to engage in all kinds of business has not been established. Certain businesses may be subject to license fees or taxes, and public utilities are limited in number by franchise privileges. Nor has the constitutional right been established to run a business as the concern sees fit. Years ago the Standard Oil group was forced to break up. Later the big meat packers were forbidden by a consent decree to engage in the grocery business or to perform other functions which to them meant much profit. On the contrary, the right to regulate business when the public welfare demands it has been firmly established. This has been particularly true when there has been a tendency toward monopoly or where unfair trade practices have been discovered.

In the modern sense of the term it is probable that the first chain stores in the United States were the group of nine stores

[1] NYSTROM, P. H., "Retail Trade," *supra*, pp. 351–352.

[2] *Chain Store Progress*, November, 1931, p. 1.

which the Worthington Manufacturing Company of Ohio was said to have operated as early as 1818. On a less ambitious scale, chain stores apparently operated at the beginning of the nineteenth century. Andrew Jackson is said to have operated three or more general stores in Tennessee.[1] In 1835 the legislature of the state of Ohio imposed a fine of $1,000 on establishments which opened a second unit in Hamilton County, the situs of Cincinnati.[2] This, of course, suggests the possible existence at that time of chain stores either in or near Ohio. In the fifties and during the next decade, Carson, Pirie, Scott and Company is said to have operated a chain of stores in the Middle West with headquarters in Amboy, Ill., but during the seventies the company confined itself entirely to wholesaling and abandoned its retail operations.[3]

Most authorities, however, trace the beginnings of chain store merchandising in this country to about 1858, as indicated by the following quotations:

"In 1858 the first chain store in the United States was established by the Great Atlantic & Pacific Tea Company . . . The first chain store had an annual turnover in 1858 of a few thousand dollars."[4]

" To the largest of all chains, the Great Atlantic & Pacific Tea Company, goes the distinction being first in the field. Establishing itself as a single store about 1858. . . ."[5]

It is probable that the following quotation reflects the situation much more accurately: "The first of existing chain stores seems to have been the Great Atlantic & Pacific Tea Company, which was established in 1858."[6] The comparative recency in the

[1] JONES, F. M., "Middlemen in the Domestic Trade of the United States, 1800–1860," *Illinois Studies in the Social Sciences*, Vol. XXI, No. 3, pp. 50–51, University of Illinois, Urbana, 1937.

[2] *Cincinnati Post*, Dec. 17, 1835, p. 7.

[3] NYSTROM, P. H., "Economics of Retailing," Vol. I, pp. 216–217, Ronald Press Company, New York, 1932.

[4] "The Chain Store—Element of Revolution," p. 5, Central Union Trust Company of New York.

[5] PALMER, J. L., "What about Chain Stores?" p. 4, American Management Association, New York, 1929.

[6] NYSTROM, P. H., "Chain Stores," p. 3, rev. ed., Chamber of Commerce of United States of America, Washington, 1930.

development of chain stores in this country can be gleaned from a further statement made by the same authority to the effect that "department stores, mail order houses and chain stores began to appear simultaneously during the seventies and eighties." The following quotation seems to corroborate the same point of view: "The chain store system of marketing goods is one of comparatively recent origin. It is not long ago that the chain store was an almost unheard of institution."[1]

A Few of the Early Chains.—As already indicated, the first of the important chains in this country came to life in 1858, when George H. Hartford and George F. Gilman were induced to buy a cargo of tea, which was then selling at a dollar a pound, and opened a red front store on Vesey Street, Manhattan, under the name "The Great American Tea Company." Hartford took charge of the store and soon thereafter became sole owner. The store proved a successful venture from the start and by the end of 1859 two more stores were opened, when the company really became a chain. The early operations were conducted with much secrecy. The present name was first introduced in connection with the concern's mail order trade in 1869, and the business was finally incorporated in 1900 under the name "The Great Atlantic & Pacific Tea Company." Today it is the largest chain store system in the United States, operating slightly over 15,000 retail units and doing around a billion dollars' worth of business per year. The Hartford families are still the principal owners of the business and are active in its management.[2] Another chain system, which operated in similar fashion and dealt in the same line of merchandise, was the Jones Brothers Tea Company which came into being in 1872, although Park and Tilford, which began business in 1840 but opened the second store in 1860, was the second of existing chains from a chronological point of view.

The fourth of the existing chain store organizations that had its inception in early times was the F. W. Woolworth Company.

[1] "Chain Stores and the Farmer," an address by John Brandt, president of Land O'Lakes Creameries, Inc., 1929 Convention Speeches, Chain Store Association, New York.

[2] For a more complete discussion of this company, its history and operations, see, "The A & P Company as a Whole," *Fortune*, July, 1930; BULLOCK, R. J., "The Early History of the Great Atlantic & Pacific Tea Company," *Harvard Business Review*, Vol. II, pp. 289–298, 1933; and "Biggest Family Business," *Fortune*, March, 1933.

The originator of the system for whom the company has been named is said to have started to work for a Watertown, N. Y., merchant without wages. After proving his worth he received a wage of $3.50 per week and was later raised to $10. While in this employ he attempted to get rid of odds and ends by placing such merchandise on a table with a printed card which read, "Take your choice at five cents each." The experiment was so successful that he tried it a number of times with equal success. Thus, with the financial support of his employer, Frank W. Woolworth opened his first five-and-ten-cent store in Lancaster, Pa. When he died in 1919, nearly 1,000 of such limited-price variety stores were operated by the company in this country, Canada, and Great Britain. Now there are approximately 2,000 retail store units in the chain, with merchandise selling at a price range from five cents to a dollar per article.[1] The S. S. Kresge Company in Detroit dealing in similar merchandise was organized in 1885. The Kroger Grocery & Baking Company traces its origin to 1882. During the same year two other important chains came into being—the James Butler Company of Brooklyn and the McCrory grocery chain in Scottsdale, Pa. The National Tea Company was started in 1899, being the last of the large chains formed during the past century.

In 1901, the United Cigar Stores Company began operations, opening one modern cigar store after another until it had at one time over 3,000 stores and a number of agencies. Probably one of the greatest of the earlier chains is that of the J. C. Penney Company. With a capital of his own of but $500, J. C. Penney and two other partners opened the first store of the chain in Kemmerer, in the mountains of Wyoming. The business was first capitalized at $6,000 and E. C. Sams, who is now president of the company, was hired as a clerk in this first unit of the system. At the present time the company operates 1,496 stores located in practically every state of the union. The year 1915 is especially significant in chain store history as three of our most prominent chain organizations were formed at that time. Walgreen in the drug field; McCrory, a variety chain; and Safeway, next to the A & P Co. the largest grocery chain organization; all trace their origin back to that epochal year.

[1] For glimpses into the early history of the Woolworth Company see *The Pathfinder*, June 30, 1928, p. 22; and *Tide*, June, 1928, p. 6.

GROWTH OF CHAINS FROM 1900 TO 1929

From a brief examination of the chain store companies formed prior to this century it is evident that the earlier organizations operated almost altogether in but two lines of merchandise, *viz.*, groceries and foods (including tea and coffee), and limited-price variety goods. It was not until the advent of the present century that chain stores spread into other lines of trade. It is equally evident that by 1900 the chain method of retailing, though it had become definitely established, had hardly begun to grow and absorbed a relatively insignificant proportion of the retail trade of this country.

Growth in the Number of Chains and Chain Stores.—At the turn of the century several large chains made their appearance and the older systems began to develop. Unfortunately, relatively limited data are available concerning the development of chain stores in the United States during the first quarter of this century. Probably the most authentic and reliable statistics on the subject are those developed by the Federal Trade Commission, and even some of those are in the form of estimates. These data resulted from a chain store inquiry conducted by the Commission over a period of several years in pursuance of a Senate Resolution approved May 5, 1928. In this investigation the term "chain" or "chain store" was applied to "organizations owning a controlling interest in two or more establishments which sell substantially similar merchandise at retail." Consequently, the Commission's statistics may be at variance with data presented by other agencies, since they include organizations of two or more establishments, while the Census Bureau, for example, includes in chain store figures only organizations of four or more units. As to which of these divergent points of view seems to be the more reasonable, a discussion in some detail was presented in the preceding chapter. Furthermore, the Federal Trade Commission limited its inquiry to 12 major classes of chains (based on the lines of merchandise handled) which, when divided into sub-classes, cover a total of 26 so-called kinds of business[1] but do not include "certain highly specialized

[1] Food (grocery, grocery and meat, meat, confectionery); drug; tobacco; variety ($1 limit, $5 limit, unlimited); apparel (men's ready-to-wear, men's and women's ready-to-wear, men's furnishings, women's accessories, hats

kinds of chains such as gasoline filling stations, automobile accessories, and others." It is on the basis of data collected for chains operating in the 26 kinds of business that estimates were prepared by the Commission for all companies with two or more stores.

According to the data shown in Table 1 (see also Fig. 1) there were in 1900 about 700 chain store systems with a total of approximately 4,500 stores. At the end of 1928 the number of

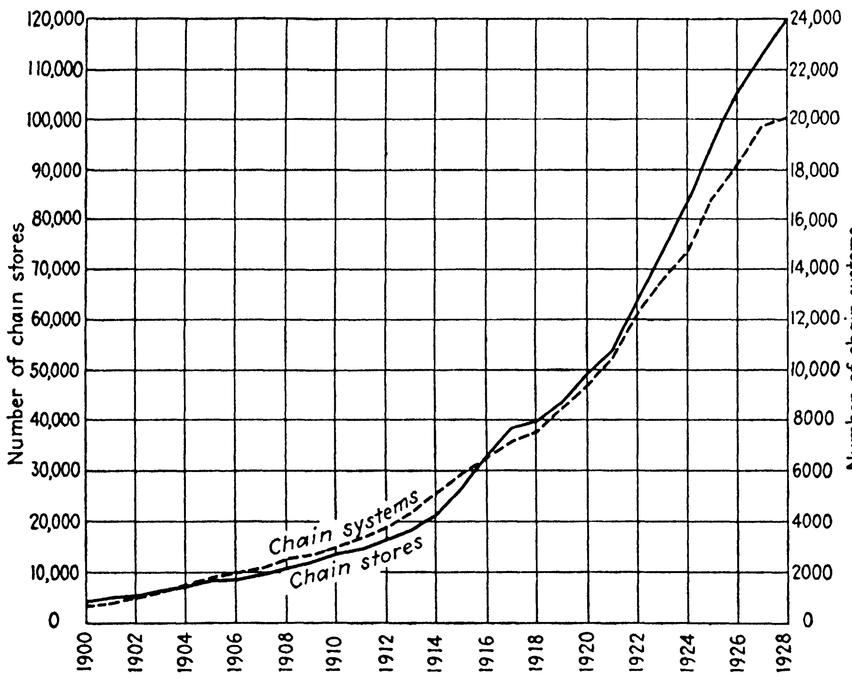

Fig. 1.—Growth of chains in number of systems and store units, 1900-1928.

chain systems stood at 20,000, and the number of retail units operated by chains was nearly 200,000. Thus, the number of chain systems increased during this period by 2,850 per cent or more than 28 times, and the number of stores in these systems multiplied approximately 2,660 per cent or nearly 27 times. A close examination of the data shown in Tables 1 and 2 reveals the following interesting facts, in addition to showing the tremendous growth just indicated:

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and caps, millinery, men's shoes, women's shoes); dry goods; dry goods and apparel; department store; general merchandise; furniture; musical instruments; and hardware.

TABLE 1.—GROWTH OF CHAINS IN THE UNITED STATES, 1900–1928

Year	Chain systems		Chain stores	
	Number	Percentage increase over previous year[a]	Number	Percentage increase over previous year[a]
1900	700	....	4,500	
1901	800	14.3	5,100	13.3
1902	1,000	25.0	5,600	9.8
1903	1,200	20.0	6,200	10.7
1904	1,500	25.0	7,300	17.7
1905	1,800	20.0	8,300	13.7
1906	2,000	11.1	8,900	7.2
1907	2,200	10.0	9,700	9.0
1908	2,500	13.6	10,800	11.3
1909	2,700	8.0	12,000	11.1
1910	3,000	11.1	13,500	12.5
1911	3,400	13.3	14,500	7.4
1912	3,800	11.8	16,300	12.4
1913	4,400	15.8	18,300	12.3
1914	5,200	18.2	21,500	17.5
1915	5,900	13.5	26,600	23.7
1916	6,500	10.2	32,900	23.7
1917	7,100	9.2	38,300	16.4
1918	7,500	5.6	39,800	3.9
1919	8,500	13.3	43,900	10.3
1920	9,400	10.6	49,200	12.1
1921	10,500	11.7	53,700	9.1
1922	12,300	17.1	63,700	18.6
1923	13,600	10.6	73,600	15.5
1924	14,700	8.1	83,400	13.3
1925	16,800	14.3	96,600	15.8
1926	18,200	8.3	105,000	8.7
1927	19,700	8.2	112,900	7.5
1928	20,000	1.5	119,600	5.9

Source: Federal Trade Commission, "Chain Stores, Growth and Development of Chain Stores," Tables 34 and 36, Vol. I, U.S. Government Printing Office, Washington, 1932.

[a] Computed.

1. The growth of chain stores was consistent throughout the period from 1900. Each year showed an increase in both the number of chains and chain units.

2. At the beginning of the second decade of this century the rate of chain store growth was accelerated but the largest increases did not take place until the third decade.

3. During the first half of the period from 1900 the number of chains grew faster than the number of store units, indicating a large increase in newly formed chain organizations. At least for the first 10 years the number of chain systems multiplied about twice as fast each year as the number of stores, and in each of the first 14 years the rate of growth in store units was less than that shown for chains.

4. In 1915 the process was reversed for the first time, and chain store units multiplied faster than the number of chain systems. In no less than 7 of the remaining 14 years covered by the tables was this true, indicating the formation of new chains on a large scale or the opening of new stores by existing chain organizations, or, probably, both. Part of the latter was also accomplished through the absorption of small chains by the larger rivals. Between 1900 and 1914 the number of chains increased 640 per cent, the number of store units increased only 480 per cent, so that the number of units per chain decreased around 36 per cent. From 1915 through 1928 the number of chain systems increased 285 per cent and the number of store units increased by 550 per cent, so that the average number of units per chain was augmented by 45 per cent. This latter period was indeed an era of large chain store development on an ever-increasing scale.

That the estimates made by the Federal Trade Commission concerning chain store growth were, if anything, conservative is evident from a comparison with the data collected for the year 1929 by the Census of Distribution. According to this enumeration, which covered chains operating in all kinds of retail business, including motor vehicle dealers, gasoline filling stations, jewelry, and a few other minor classes of business excluded from the Commission's analysis, there were in 1929 no less than 148,137 chain store units owned by organizations having four or more units each. To make the data comparable, one must add to this figure the so-called "twins and triplets," *viz.*, the stores operated by organizations with two or three units each. This group comprised in 1929 a total of 64,583 stores; hence, it may be said that the total number of chain store units in operation in the United States during that year was 212,620, of which about 50,000 were in lines of business not covered by the Commission. During the year 1933, when the second Census of Business was

TABLE 2.—NET YEARLY ADDITION OF CHAINS AND CHAIN STORE UNITS, UNITED STATES, 1900–1928
Percentages computed on base year 1900

Year	Chains		Stores	
	Number added (net)	Percentage increase	Number added (net)	Percentage increase
1901	100	14.3	600	13.3
1902	200	28 6	500	11.1
1903	200	28.6	600	13.3
1904	300	42.9	1,100	24.4
1905	300	42.9	1,000	22.2
1906	200	28.6	600	13.3
1907	200	28.6	600	13.3
1908	300	42.9	1,100	24.4
1909	200	28.6	1,200	26.7
1910	300	42.9	1,500	33.3
1911	400	57.1	1,000	22.2
1912	400	57.1	1,800	40.0
1913	600	85.7	2,000	44.4
1914	800	114.3	3,200	71.1
1915	700	100.0	5,100	113.3
1916	600	85.7	6,300	140.0
1917	600	85.7	5,400	120.0
1918	400	57.1	1,500	33.3
1919	1,000	142.9	4,100	91.1
1920	900	128.6	5,300	117.8
1921	1,100	157.1	4,500	100.0
1922	1,800	257.1	10,000	222.2
1923	1,300	185.7	9,900	220.0
1924	1,100	157.1	9,800	217.8
1925	2,100	300.0	13,200	293.3
1926	1,400	200.0	8,400	186.7
1927	1,500	214.3	7,900	175.6
1928	300	42.9	6,700	148.9

Source: Derived from Table 1.

taken, no separate data were presented for chains operating two or three stores each. The data were confined entirely to the artificially concocted definition of chains which covers only stores belonging to an organization having four or more units. A comparison of the latter figure shows a decline in the number of chain stores from 148,037 in 1929 to 141,603 in 1933, a decrease of 4.3 per cent, due largely to the consolidation of smaller stores

into larger units during the depression. In 1935, according to the results of the third enumeration taken by the Bureau of the Census, the number of chain stores (operated by organizations of four or more units) stood at 127,482, a decrease from 1933 of about 10 per cent.[1]

Growth in Chain Store Volume of Sales.—For years prior to 1929 only the most fragmentary information is available concerning the volume of business done annually by chains. For the early years of the present century even the fragmentary data are unreliable, since the reporting of such data had hardly been established. Even for the latter part of the period prior to 1929, when the first Census of Distribution was inaugurated, only statements of the following general nature were possible:

> Between 1919 and 1927 the sales volume of twenty-seven grocery chains practically trebled. Atlantic and Pacific sales approximately quadrupled. Kroger sales were multiplied approximately five times. In the drug trade, Walgreen since 1920 has multiplied its volume approximately 20 times. In the retail meat business chains were of negligible importance five years ago. Today one hears predictions that in a few years most of the retail meat business of the country will be in the hands of chains.[2]

Statements of this kind, while valuable in indicating the trend, nevertheless fail to measure the position of the chain store in our marketing structure from the standpoint of total volume of retail business for which they account.

For all chains it is estimated that in 1919 their volume of business was approximately 4 per cent of the total retail trade of the country.[3] A survey made in 1927 by the Chain Store Economic and Financial Research Bureau disclosed the fact that in 1921 the chains of this country accounted for but $1,369 millions of business, whereas in 1926 they were said to have done no less than

[1] All data based upon the Census of Distribution and the two Censuses of Business used in this treatise are taken from Fifteenth Census of the United States, Distribution, Vol. I, Part I, U.S. Government Printing Office, Washington, 1933; Census of American Business for 1933, Chains and Independents, U.S. Department of Commerce, Washington, 1935; and Census of Business: 1935, Retail Distribution, Vol. IV, U.S. Department of Commerce, Washington, January, 1937.

[2] Palmer, J. L., *op. cit.*, p. 5.

[3] Nichols, John P., *op. cit.*, p. 11.

$3,400 millions of business, an increase of nearly 150 per cent. This amounted to approximately 9 per cent of the estimated retail sales for 1926 at about 37 billions.[1] One writer claimed that in 1928 the chain stores accounted for 12 per cent of the estimated retail sales of between 42 and 43 billions.[2]

In the Census of Eleven Cities taken for the year 1926 it was found that chains represented 15.1 per cent of all retail establishments and accounted for 28.7 per cent of the retail sales.[3] Since chains are found in greater numbers in the larger communities these latter data are hardly indicative of the place of chain stores in our economic order. The first Census of Distribution shows that in 1929 chains with four or more units reported sales for the year of nearly 10 billions ($9,834,846,000) or exactly 20 per cent of all retail store sales in the United States. If the sales reported by the two- and three-store chains are included, it is found that the chains accounted for more than 30 per cent of the retail store volume. On the basis of four or more store chains, the sales for 1933, according to the Census of American Business, reported by chains were $6,312,769,000 or 25.4 per cent of all retail store sales, representing an increase of 26 per cent, even though the number of units owned by chains declined during the same period by 4.3 per cent over 1929. Thus, from 1919 to 1933 chain stores increased their share of the retail store trade in this country nearly 6½ times. For 1935 the sales made by chain stores operating four or more retail units accounted to $7,550,186,000 or 22.8 per cent of the total business done by retail stores and an absolute increase in dollar volume over 1933 by approximately 20 per cent.

In view of these facts, is there any wonder that students of marketing so frequently allude to the past two decades as the "chain store era" or the "chain store age"? Indeed it was during this period that the most rapid development of chain stores took place and a constantly larger share of the consumer's dollar was being spent in those stores.

[1] *The Columbus Dispatch*, Oct. 29, 1927.

[2] Rukeyser, M. S., "Chain Stores, The Revolution in Retailing," *The Nation*, Nov. 28, 1928, p. 568.

[3] "Retail and Wholesale Trade," Results of the Distribution Census of Eleven Cities, published by the Domestic Distribution Department, Chamber of Commerce of United States of America, 1928.

Invasion of New Lines of Merchandise.—The tremendous and unprecedented growth of chain stores, in both numbers and volume of sales, occurred in lines in which they first became entrenched. In those kinds of business new stores were opened so rapidly by existing chains and additional chains sprang into being overnight in such large numbers that it became difficult if not impossible to chronicle their forward movement. This may account for the publication of a magazine by the name *Chain Store Progress*, for that was the story to be told of the chain movement: it was continuously and unremittingly one of progress and advancement. But there were new fields to conquer and additional lines of business to cover. Not so many years ago it was argued in practically all books in the field of marketing that chain stores cannot possibly succeed in the sale of style goods and in fields which have a diversity of items in their merchandise stocks. From the records so far established, such statements are no longer true. While before this century chains operated in only a few kinds of business, the Federal Trade Commission inquiry found chains in all of the 26 kinds of business analyzed, and the Census of Eleven Cities for 1926 reported chains in all of the 47 kinds of business into which stores were classified. Similarly, the Census of Distribution for 1929 showed chains in operation in no less than 101 kinds of business and a similar situation was disclosed by the census data for both 1933 and 1935.

To be sure, the relative importance of chains varies considerably in the different lines of retailing. Furthermore, the rate of growth by lines of trade showed wide variation. By 1900 chains were definitely established in the grocery and grocery and meat lines. The most rapid rate of growth, however, was experienced between 1900 and 1913. After this year the rate of growth declined, although in 1922 the greatest absolute increase was registered. After 1925 the rate of increase was markedly less than during the preceding year.

In the drug field the experience has been very much like that just related for groceries. Between 1900 and 1913 the growth was very rapid, more than doubling in numbers between 1910 and 1915, after which the rate of growth was less rapid but steady. In the variety store field, chain store growth did not begin in earnest until 1906, but after this date the growth was steady but

not spectacular. Beginning with 1910 the development of shoe chains became noteworthy, but the growth in that field has been more steady and gradual than in any other line of trade. Dry goods and department store chains appeared in recent years, probably since the World War, with the numerical growth being greatest subsequent to 1921. In recent years chains have also invaded fields of merchandise for which demand has been developed in the last two decades. Special reference is had to the automotive business, radios, and household appliances.

In general, when chains enter a new field of retailing a rapid increase is registered at first in the number of chain systems, but when they become established in that line of trade the rate of increase in the number of chain systems declines, and the number of units per chain begins to grow. It follows, therefore, that as chains occupy permanent berths in their respective lines of merchandise the trend will be for relatively fewer chains, each operating on a much larger scale than at present.

Spread of Chains Geographically.—Naturally the chains did not develop at the same rate all over the United States. It was the conclusion of the Federal Trade Commission that "those States which (relative to population) rank high in chain stores tend to coincide with those States which rank high in urban dwellers and in persons who make Federal income-tax returns; and a similar coincidence appears as among States which rank low in all three categories cited."[1]

Since 1914 the number of chain stores has increased in each geographical division, but chains concentrated their expansion first in the more densely populated areas where they commanded the greatest potential ready market for their goods and where a large number of stores could be serviced conveniently from a central warehouse. Later they stressed the establishment of stores in less densely populated regions. About one-half of all the stores reported for each year to the Commission were located in the five states of New York, Pennsylvania, Ohio, Illinois, and Massachusetts, and another one-third of the chain stores were found in five other states. However, a larger proportion of the total chain stores were reported for 1928 than for 1913 in as many as 29 different states, which included but five of the impor-

[1] "Chain Stores—State Distribution of Chain Stores, 1913–1928," p. 19, U.S. Government Printing Office, Washington, 1933.

tant chain store states previously mentioned.[1] This means that chain stores have penetrated the less populous regions of the country.

Even within any one state the tendency has been in recent years for chains to invade the smaller towns and cities rather than to confine their operations to the larger communities as in the past. Thus in 1928 there were more chain store units per thousand population in the eastern states where a large proportion of the population is urban. The District of Columbia led in this regard, followed by New Jersey and Massachusetts, while the Dakotas, South Carolina, Arkansas, New Mexico, and Mississippi showed the smallest number of chain stores per thousand of population.[2] A somewhat different story is told by the data showing the distribution of chain stores geographically at the present time, as will be shown in the following chapter, indicating a widespread expansion of chains even into sparsely populated districts and into the small towns.

Summary.—From a small beginning in 1900, chain stores have grown tremendously in the number of systems and have multiplied prolifically in the number of store units. Although at the turn of the century they absorbed but a negligible fraction of the retail business of the land, their sales have stepped up year by year at such a terrific rate that they now absorb from 25 to 35 per cent of retail store sales, depending upon how a chain is defined. Moreover, the chain store principle has been applied successfully to many lines of merchandise hitherto thought to be immune to chain competition. To be sure, chains have not as yet developed a strong position in every line of retailing, but from the experience thus far observed there is no reason to believe that chains will not become important factors throughout the field of retailing. Finally, chain stores have invaded sections of the United States thought to be unprofitable for chain store operations and are now penetrating into the smaller communities, and even rural regions, in their competitive struggle for the consumer's dollar.

[1] *Ibid.*, p. 11.
[2] *Ibid.*, pp. 16–19.

CHAPTER III

PRESENT STATUS OF CHAIN STORES

Regardless of their possible shortcomings, the Census data on chain stores are by far the most complete and reliable, especially for measuring the entire chain store universe in this country. Such data are available for three years, for which separate enumerations were made, namely, 1929, 1933, and 1935. There is no other accurate method of measuring the type of retail distribution in question either as of one of those years or as to the changes that have taken place since 1929. All other methods are of the sample survey type, are usually confined to the larger chains which by no means reflect what has happened to and among the vast number of small chains, and are woefully incomplete and misleading.

The Number of Chain Stores.—According to the Bureau of the Census, there were in 1929 no less than 216,295 stores operated by chain organizations, representing 14 per cent of all retail stores in the United States. Of these, 148,037 stores belonged to organizations of four or more units each, exclusive of chains of leased departments with four or more units per organization. As a matter of fact, the Retail Division of the Census of Distribution itself listed 7,061 chain store systems in 1929 with 159,638 retail units even on the basis of four or more stores per chain; hence the discrepancies in the exact number of chain stores reported by the Census itself would indicate that there is nothing sacred about the figure normally quoted for that year of 148,037 such stores (see Table 3).

For the year 1933 no separate data were shown for chains with two or three stores or for chains of leased departments. For so-called "regular chains" with four or more units each, the number of stores reported was 141,676, or 9.3 per cent of all retail establishments, as compared with 148,037 such stores in 1929 which then constituted 9.6 per cent of all retail establishments. Thus, chain stores showed a decline in the number of retail units of about 4 per cent and this was often quoted as evi-

dence that chain stores have come of age and are no longer growing. In 1935 there were a total of 185,440 chain stores which represented 11.2 per cent of all retail places of business. But of this number only 127,482 stores belonged to so-called "regular chains" and these represented but 7.7 per cent of all retail establishments then in existence, although in other publications the census reports for 1935 no less than 6,079 separate chains of four or more store units operating a total of 139,810 stores.[1] This is given as further proof that chain stores have ceased growing and are in fact declining in importance.

TABLE 3.—NUMBER OF CHAIN STORES, BY CLASS OF CHAIN, UNITED STATES, 1929, 1933 AND 1935

Class of chain	1929		1933		1935	
	Number	% of all stores	Number	% of all stores	Number	% of all stores
Chains of 4 or more stores	148,037[a]	9.6	141,676[a]	9.3	127,482[a]	7.7
Chains of 2 and 3 stores	64,583	4 2	[b]	[b]	54,294	3.3
Chains of leased departments	3,675	0.2	[b]	[b]	3,664	0.2
Total	216,295	14.0	[b]	[b]	185,440	11.2

Source: Bureau of the Census publications on retail distribution.

[a] This represents only stores operated by so-called regular chains with 4 or more retail units. If to this figure are added for 1935 the 3,664 leased departments of the chain type, the 2,053 state liquor stores, and the 6,591 retail units operated by chains which are not identified by the Census to avoid disclosure of individual operations, and similar data are used for 1929 and 1933, it would appear that the Bureau of the Census recognizes even on a four or more retail-unit basis the existence of the following number of chains and store units:

	1929	1933	1935
Number of chains	7,061	5,546	6,079
Number of retail units	159,638	152,308	139,810

Census of Business: 1935, Retail Chains, U.S. Department of Commerce, Washington, June, 1937.

[b] No comparable data.

[1] Census of Business: 1935, Retail Distribution, Vol. I, pp. 1–26, U.S. Department of Commerce, Washington, 1937; Census of Business: 1935, Retail Chains, U.S. Department of Commerce, Washington, June, 1937.

That the conclusions reached on the basis of the *number* of chain stores during each of the three years in question are absolutely erroneous becomes evident from an examination of chain store sales during the same years. The shrinking in the number of such stores has been due largely to a consolidation of smaller stores into larger units and through a closing during the depression of unprofitable places of business. This process, which began even before the depression, was no doubt hastened by the various taxation measures aimed at the chains, for such taxes are based largely on the number of units in operation, the tax progressing as the number of retail units increases.

Chain Store Sales.—During 1929 chain stores, following the definition of the Census Bureau in the narrowest sense, accounted for 20 per cent of total retail store sales. The comparable percentage for 1933 was 25.4 per cent and for 1935 it was 22.8 per cent (see Table 4, particularly the footnotes). Stated otherwise, the sales of independents during 1933 decreased about 53 per cent over those reported for 1929, whereas the sales of chains decreased only around 35 per cent; in 1935 the sales of independents were about 36 per cent below those reported for 1929 while the sales of chains were only 23 per cent below the 1929 figures. It is thus apparent that while the number of stores operated by chains *declined* from 1929 to 1935 by approximately 15 per cent, the share of retail business absorbed by chains was *larger* in 1935 by 14 per cent.

Obviously, chain store sales declined less during the depression and hence accounted for a larger proportion of the total than reported by independents. This has been due largely to two factors. Chain stores deal to a large extent in necessities, over 36 per cent of all their sales in 1933 having been in the grocery trade alone. During times of stress the dollar volume in such necessities as groceries and other staple lines does not decline so fast as the total retail business. To put the matter differently, a larger proportion of the consumer's dollar in times of stress is spent for necessities and a smaller proportion is spent for luxuries and for durable goods. Thus, in 1933, a little over 27 cents of the consumer's retail dollar was spent in food stores, as against about 22 cents in 1929. Since many chains deal in foods, they consequently suffered less during the depression than retailing as a whole. Second, during hard times the consumer is apt to be

more price conscious in order to make the limited dollars at his disposal go a long way. Chain stores have built up the reputation of offering merchandise at low prices. This has no doubt had its effect in attracting a larger share of the customers during the depression than in times of prosperity.

TABLE 4.—SALES OF CHAIN STORES, BY CLASS OF CHAIN, UNITED STATES, 1929, 1933 AND 1935
In thousands of dollars

Class of chain	1929		1933		1935	
	Amount	% of all retail store sales	Amount	% of all retail store sales	Amount	% of all retail store sales
Chains of 4 or more stores.	$ 9,834,846[a]	20 0	$6,372,554[a]	25.4	$ 7,550,186[a]	22.8
Chains of 2 and 3 stores	4,275,585	9.7	[b]	[b]	2,611,866	7.9
Chains of leased departments	129,702	0 2	[b]	[b]	108,070	0.3
Total	14,240,133[c]	29 9[c]	[b]	[b]	10,270,122[c]	31.0[c]

Source: Bureau of the Census publications on retail distribution.

[a] On the basis stated in footnote [a] of Table 3, the Census reports the following volume of business done by chains with four or more retail units each:

RETAIL SALES OF CHAINS (FOUR OR MORE UNITS)

Year	Amount	% of all retail sales
1929	$10,740,385	21 9
1933	6,767,766	27 0
1935	8,460,611	25.5

[b] No comparable data.

[c] In view of the data in footnote [a] above, these figures represent an understatement. When properly adjusted it would seem the chains with two or more retail units each transacted a total retail business as indicated below:

RETAIL SALES OF CHAINS (TWO OR MORE UNITS)

Year	Amount	% of all retail sales
1929	$15,015,970	30.6
1935	11,072,477	33.4

The same two reasons would explain, in part, the relative decline in the sales position of chain stores during 1935 as compared with 1933 when measured in terms of the proportion of all retail store sales taken by chains. As conditions improved, the price consciousness of consumers may have given way to other patronage motives. Besides, chain stores still dealing largely in staples, almost one-third of all chain store sales in 1935 being in groceries, the increase in such business during a period of recovery is likely to be smaller than the general increase in all retail sales. To these two factors must be added the competition from supermarkets which have developed in the interim. Much of the business of this newer type of retailing has been in the grocery trade and has been attracted principally from chain stores, inasmuch as their appeals are similar in many respects. A fourth reason for the relative decline in 1935 over 1933 is to be found in the effects of chain store taxation measures enacted in a number of states. This is especially notable in certain lines of trade as in the retailing of gasoline and oil. In 1933, over 35 per cent of the business reported by filling stations was accounted for by chains, whereas in 1935 only a little over 21 per cent of the business was thus accounted for.

The statistics of sales analyzed so far do not include chains of two and three stores each, nor do they cover chains of leased departments. When these latter figures are included, it would seem that chain stores accounted for 29.9 per cent of all retail store sales in 1929 and for 31 per cent of all such sales in 1935 (see Table 4). Furthermore, if all chains with two or more units are taken into consideration, including those chains which are not identified in relation to type classification to avoid disclosure of individual operations but admitted by the Census as chains, the percentage of all retail business done by chains would be 30.6 per cent for 1929 and 33.4 per cent for 1935. *However, owing to the unavailability of detailed data on this broader and more accurate basis, the following analyses will perforce have to be based on the narrower and rather inadequate Census definition of chains.*

Chain Store Sales by Kind of Business.—In any discussion of chain stores attention is usually focused upon food chains. When the layman thinks of chain stores, the red- or green-front grocery store immediately flashes to his mind. Yet chains operate in many lines of retail trade. As shown in Table 5, there is hardly a

major field of retailing that has not been touched by the chain movement. To date, however, chains have preferred to specialize in certain lines of retailing and not to enter others extensively. Chain store business is therefore highly concentrated in a few kinds of retail distribution.

TABLE 5.—CHAIN STORE SALES, BY KIND OF BUSINESS
In thousands of dollars

Kind of business	Amount	% of total chain store sales	Ratio of sales in given line, %		
			1935	1933	1929
Grocery stores	$2,466,588	32.67	38.8	44.1	39.1
Motor-vehicle dealers	168,337	2.23	4.4	5.3	[a]
Accessories-tire-battery dealers	186,917	2.46	50.0	[a]	[a]
Filling stations	423,082	5.60	21.5	35.5	33.8
Department stores	883,101	11.70	26.7	23.9	16.7
Variety stores	708,651	9.39	90.8	91.2	90.1
Men's clothing and furnishings stores	138,528	1.83	21.0	22.0	21.2
Family clothing stores	74,008	0.98	20.6	20.3	27.3
Women's ready-to-wear stores	200,077	2.65	25.2	23 3	22.7
Shoe stores	255,564	3.39	50.0	46.2	38.0
Furniture stores	93,821	1.24	13.5	14.2	14.2
Household appliance-radio stores	47,987	0.64	12.6	21.5	[a]
Radio dealers	13,187	0.17	23.1	15.6	19.1
Lumber and building-material dealers	206,097	2.73	23.8	[a]	[a]
Hardware stores and implement dealers	32,911	0.44	4.3	4.1	[a]
Restaurants and eating places	242,354	3.21	14.5	14.9	13.6
Cigar stores and stands	65,525	0.87	35.8	33.9	25.1
Drug stores	316,807	4.20	25.7	25.1	18.5
Jewelry stores	20,890	0.27	8.9	5.9	6.4
All other	1,005,754	13.33	[a]	[a]	[a]
Total	$7,550,186	100.00	22.8	25.4	20.0

Source: Census of Business: 1935, Retail Distribution, Vol. IV, Types of Operation, pp. 13–14, U.S. Department of Commerce, Washington, January, 1937; Census of American Business, Retail Distribution: 1933, Chains and Independents, pp. 3–4, U.S. Department of Commerce, Washington.

[a] No comparable data are available.

It is true that the grocery type of chain store is to the forefront because most legislative and other attacks against chains in recent years have been leveled at that kind of organization. This may also be accounted for by the frequency with which consumers

visit such stores. The chief explanation lies, however, in the large number of chain grocery stores in existence and in the volume of business they do annually. Of all chain store units in operation in 1935, over 37 per cent were operated by grocery chains. Moreover, these grocery chains did an annual business at that time which was 32.67 per cent of the total business reported by all chains for the same period. From the standpoint of the total volume of chain store business, therefore, grocery chains come first, followed by department store chains, variety store chains, filling station chains, and drug store chains, in the order mentioned. These five kinds of chains, together, accounted for about 63.5 per cent of all the chain business in 1935.

From this it must not be inferred that the competition from chains is the most severe in the grocery trade. While it is true that almost a third of all chain store sales were made by grocery chains, these chains absorbed only 38.8 per cent of the grocery store business, the remainder going to independents, supermarkets, and so on. Similarly, while department store chains were second in their contribution to the chain store business total, they absorbed but 26.7 per cent of the department store volume. Looking at chain stores from the standpoint of the ratio of the business they absorb in the respective lines of retail trade in which they operate, variety store chains take the lead, since they accounted for 90.8 per cent of the business done by all limited-price variety stores in 1935. In this field, the competition from chains is so severe that few indeed are the independents who would dare to enter into competition. Chains as a group enjoy a virtual monopoly in this business. Shoe chains are next in importance from this point of view, with 50 per cent of the total shoe store business, followed by dealers in automobile accessories with 50 per cent of the volume, by cigar stores with 35.8 per cent of the business, department stores with 26.7 per cent, and drug stores with 25.7 per cent. In practically all of these fields, chain stores have shown considerable growth since 1929 and have absorbed an increasingly larger proportion of the business.

It should be stated here, at least parenthetically, that the usual reference to totals when dealing with the chain store question is highly inadequate in depicting the actual situation. Of the consumer's dollar spent in retail establishments in 1935 only 22.8 cents were taken by chains of four or more units each. While

this constitutes nearly one-fourth of the total business, that proportion is not large enough to cause alarm on the part of those who look at chain stores with suspicion. But when chain store business is analyzed by lines of trade, an entirely different picture is presented. The national average for all kinds of retailing is of little help to the independent grocer where the chain absorbs nearly 39 cents of the dollar, or to the independent shoe store where chains absorb 50 cents of every dollar spent in shoe stores. Hence, the chain store problem has become acute in a few lines of retailing, despite the fact that chains are steadily spreading into other fields where they tend to absorb an increasingly larger share of the amounts spent by consumers for such merchandise.

Geographic Distribution of Chain Store Business.—Chain stores are now to be found all over the United States. They operate in every state of the Union. In all but two states (Idaho and Montana) they absorbed a larger share of the retail business of the state in 1935 than they did during 1929, indicating a general relative growth all over the country (see Table 6). In eleven of the states and the District of Columbia the chain sales ratio was higher in 1935 than the national average of 22.8 per cent. From the nature of these states, it would seem that there is a direct correlation between a high percentage of chain store volume and a concentration of population. On the other hand, there were 12 states with a chain sales ratio considerably below the national average, indicating again a correspondence between low chain store sales ratios and sparse populations. It should be noted, however, that in three states (Mississippi, Nevada, and Vermont), where the chain sales ratios were the lowest in 1929, the largest relative increase in such ratios was revealed by the 1935 data.

From the statistics presented in Table 6 several important facts can be gleaned:

1. Chain stores are highly concentrated geographically in those states which have the largest populations. Conversely, they are relatively less important in states of small populations.
2. Chain stores are, nevertheless, to be found in every part of the United States.
3. In all but four states chain sales ratios were lower in 1935 than in 1933.
4. In all but two states chain sales ratios were greater in 1935 than in 1929.

TABLE 6.—RATIOS OF CHAIN STORE SALES TO TOTAL RETAIL SALES, BY STATES

State	1935	1933	1929
Total United States	22.8	25.4	20 0
Alabama	16 7	17.9	14.5
Arizona	22 2	27.2	21.6
Arkansas	12 3	14.1	11.5
California	25.7	27.7	23.1
Colorado	22.3	19.6	15.9
Connecticut	24.5	27.5	21.1
Delaware	19 9	23 9	16.5
District of Columbia	29.7	28.4	26.3
Florida	22 2	24 9	17.5
Georgia	18.7	21.3	17.0
Idaho	19 9	23.1	20.7
Illinois	29 3	30 6	23.6
Indiana	24 3	27 0	19.0
Iowa	17 7	20.8	15.0
Kansas	17 8	21.3	15.9
Kentucky	19 5	21.1	15 2
Louisiana	17 8	18.5	13.2
Maine	19 6	18.5	13.7
Maryland	19 2	20 4	18.8
Massachusetts	28 9	30 8	23 8
Michigan	25.3	30 0	23 5
Minnesota	15 1	17 8	13.5
Mississippi	11 1	12 3	7.5
Missouri	20.4	22 3	18.0
Montana	14 8	16.9	15.1
Nebraska	16 5	17 9	13 0
Nevada	15 2	19 0	10.3
New Hampshire	20 6	22 3	16 1
New Jersey	25 1	27 3	22 5
New Mexico	15 9	16 1	13.6
New York	25 0	27 8	23.9
North Carolina	19 8	22 0	16.1
North Dakota	15 9	18 2	13.1
Ohio	24 0	28 1	21.7
Oklahoma	21 4	22 4	18.2
Oregon	17 7	19 3	16 5
Pennsylvania	24 9	29 0	21 2
Rhode Island	26 2	29 5	24.2
South Carolina	16 2	17 6	13.1
South Dakota	18 1	21 4	13.9
Tennessee	17 9	19 5	14.8
Texas	18 0	19 2	16.4
Utah	22.2	24 5	17 5
Vermont	18 3	17 6	10.5
Virginia	19.2	20 6	16.4
Washington	18.7	21.3	18.4
West Virginia	21 3	21.9	17.4
Wisconsin	17 6	19 5	16.5
Wyoming	14.7	15 4	12.2

Source: Census of American Business: 1933, Chains and Independents, U.S. Department of Commerce, Washington; and Census of Business: 1935, Retail Chains, p. 10, U.S. Department of Commerce, Washington, June, 1937.

5. The greatest percentage increase is to be found in states which had a very low sales ratio in 1929, indicating a possible saturation point in certain parts of the country, at least so long as the chains prefer to restrict their operations to certain fields of retailing.

Urban Character of Chains.—Although there has been a tendency in recent years for chains to spread into smaller communities and to invade sparsely populated areas, the chain store is still essentially an urban institution. Of the 127,484 retail units of chain stores with four or more stores each in operation during 1935 in the United States, 30,296 units were located in the 13 cities having a population of more than 500,000 inhabitants each. These stores accounted for $2,251,362,000 of business. While the 13 cities in question accounted for a little over 16 per cent of the country's population, they contained 23.8 per cent of the chain stores and contributed 29.8 per cent of the chain store business of the United States. The high degree of concentration of chains in the large cities is quite apparent from these statistics. All this has, no doubt, tended to accentuate the grievances held against the chains and the severity of competition faced by independents.

To gain a better understanding of the urban character of chain stores, their sales ratios are presented in Table 7 for five kinds of business in which chains occupy significant positions. These are shown for each of the 13 largest cities in this country. From these data it is seen that in the grocery trade chain stores absorbed a little over 60 per cent of the business in Cleveland, nearly that much in Detroit and Chicago, and over 50 per cent in Boston and Pittsburgh, as against a national average of 38.8 per cent. For this reason the chain store problem in Cleveland, for example, is more to the front in the grocery trade than it is in many other communities where the competition from that source is less severe. Data for the drug trade show similar results. Although the national average for chains in this field of retailing is but 25.7 per cent, practically one-half of the retail drug business in Cleveland is absorbed by chains, and in 11 of the 12 remaining large cities for which data are shown in Table 7 the chain sales ratios in the drug business are far above the national average. An identical story is told for shoe stores and filling stations. In the variety store field, chains do 90.8 per cent of all the business of the country transacted by stores of the limited-price variety type.

TABLE 7.—CHAIN SALES RATIOS FOR CITIES OF MORE THAN 500,000 POPULATION, FOR SPECIFIED KINDS OF BUSINESS, 1935

City	Grocery stores	Drug stores	Shoes	Filling stations	Variety stores
Baltimore	36.1	38.5	47.2	59.8	85.9
Boston	53.4	29.8	56.1	46.5	97.7
Buffalo	47.8	26.3	72.9	57.2	93.1
Chicago	56.8	47.5	69.7	32.6	98.4
Cleveland	60.2	49.9	63.4	34.9	97.2
Detroit	58.7	44.2	51.7	25.1	94.3
Los Angeles	49.5	33.8	68.7	23.1	92.3
Milwaukee	23.7	38.3	46.8	40.9	97.8
New York City	41.2	26.8	64.6	32.7	94.0
Philadelphia	48.5	24.7	64.4	49.4	95.0
Pittsburgh	50.3	44.6	63.0	52.7	97.8
St. Louis	28.4	38.5	39.2	31.2	94.3
San Francisco	35.0	37.9	57.6	51.6	90.8
National average	38.83	25.7	50.0	21.5	90.8

Source: Census of Business: 1935, Retail Distribution, Vol. IV, Types of Operation, U.S. Department of Commerce, Washington, January, 1937.

In Chicago, however, such business is completely monopolized by the chains where they account for 98.4 per cent of such business. In four other cities the ratios in this type of retailing are over 97 per cent, and in only one of the 13 largest cities was the chain sales ratio below the national average.

Chains by Territory of Operation.—It is sometimes charged that the enemies of chain stores overlook the fact that many of the chains are local in character and that their agitation may hit these just as hard as the sectional and national organizations against which their vehemence is ordinarily directed. Some factual information on this point is therefore exceedingly important.

Of all chain units in operation during 1929, fully 52,465 stores were classified as belonging to local chains. This means that 35.4 per cent of the chain stores were of a local character, and these stores accounted for 33.5 per cent of the business reported for 1929 by all of the 148,037 chain store units. Thus, it is argued, local chains are very prominent and agitators must not overlook that fact; they must not think only in terms of the large sectional or national chains. Whatever tax burden is imposed on

chains will fall on the locally owned organization, although the burden will probably be somewhat heavier on the national chains.

The potency of this type of argument cannot be questioned. Yet when one examines the chain store data for 1935, the force of the argument wanes. In that year, according to the Census of Business, there were 127,482 units operated by chains with 4 or more stores each and doing an annual business of $7,550 millions. Units operated by local chains in 1935 numbered, however, only 17,964 or 14.1 per cent of all chain stores and they accounted for but 13.4 per cent of the chain store business. In an interval of but half a dozen years, local chains declined in relative importance whether measured by the number of stores or their sales volume, by about 60 per cent. Stated otherwise, it means that local chains were two and one-half times as important in 1929 as they were in 1935. The inference is that local chains are losing their place to the sectional and national organizations and that the chain store business is becoming concentrated in the hands of fewer and fewer enterprises. The fact that 47 per cent of all grocery chain stores are in the hands of but three chains is indicative of what may be expected in fields in which chain stores have as yet had less experience than in the retailing of groceries.

Summary.—From the foregoing factual presentations certain conclusions may now be drawn:

1. In the United States, the chain store has become a retailing institution of great importance, absorbing 31 cents of the consumer's dollar spent in retail stores. While the number of chain stores seems to be decreasing, the tendency is for the proportion of business taken to increase.

2. A correct measurement of the significance of chain stores cannot be obtained by dealing in totals. The analysis must be made by lines of retail trade in which chains actually operate. It seems that chain stores prefer to concentrate in a few kinds of retailing where operations can be fairly standardized. In those lines of business in which they concentrate, the proportion of business attracted by chains runs very high and results in keen competition with independents. In some of those fields, notably the variety store business, they have attained a virtual monopoly.

3. Chain stores gravitate to sections of the country which are densely populated, over 50 per cent of them being located in the

Middle Atlantic and East North Central states, although they are now spreading into the more sparsely populated areas. In those lines of retailing in which chains prefer to function, they seem to have approached a point of saturation in the more heavily populated states, when judged by the relative changes that took place since 1929.

4. Chains are largely urban institutions. Their affinity for the larger cities aggravates the competitive situation and tends to cause much alarm and antagonism toward them. In the largest cities of the country, chains absorb the bulk of the business in the few fields of retailing in which they specialize.

5. The trend is for chains to become larger and sectional or national in character. The concentration of the chain business in the hands of large organizations has been proceeding apace and the end is not yet.

CHAPTER IV

CHAIN STORE ADVANTAGES

The phenomenal growth of chain stores during the past few decades is not a happenstance, nor is it altogether the natural result of the times. It is due in large part to certain advantages which chain stores as a class have enjoyed over their independent rivals. Many of the advantages are, of course, peculiar to the chain method of distribution, but chains do not necessarily have a monopoly on many of these advantages; some are equally available to single stores. The important thing is that the chains have utilized these advantages to a fuller extent than have other types of merchandising establishments.

The effective use of their opportunities has been the major factor in the mushroomlike expansion of the chain stores. The independent merchant did not willingly allow the chains to absorb over one-fourth of the total retail sales volume of the nation.[1] In fact, he fought to the best of his ability to keep the chains from taking his trade. It was therefore necessary for the chains to marshal every advantage to succeed over such opposition. That they were successful signifies just how important their advantages have been.

Although the peculiar advantages which the chains enjoyed made it possible for them to capture a considerable portion of the retail trade volume, these same advantages have backfired, as it were, in another direction. It is because of them that the courts have quite generally held that chain stores are a distinctive type of retail institution and therefore subject to taxes which apply only to establishments in their class, different rates from those levied on independents being applied. These rates, some of which are distinctly burdensome to chains, are possible because of the superior political importance of the independent merchant. Thus, the same advantages which have furthered the development of chain stores may make it possible to curb their expansion by means of so-called "discriminatory" license taxes.

[1] See Chap. III.

The advantages which the chains enjoy are not all of the same type. Some may be labeled business advantages and others economic advantages. It is not always a simple matter to determine just when an advantage should be placed in a particular category, and there is occasionally room for difference of opinion, but fundamentally the chain store advantages not only may be classified as has been suggested, but they should be so classified in order that one may understand the chain store problem more clearly.

BUSINESS ADVANTAGES

The business advantages of chain stores are those points of commercial superiority which are not commonly enjoyed by the rank and file of their competitors. Though there are many of them, by far the most important are the buying advantages and the relatively low cost of doing business which the chains have effectuated.

Buying Advantage.—That the chain store has had a decided advantage over the independent in the matter of buying is quite freely admitted. Chains purchase in vast quantities, take advantage of cash discounts, and place their orders at opportune times. The net result is that they secure the very lowest prices which the markets afford. This ability to purchase advantageously extends beyond the merchandise bought for resale; it includes supplies, store fixtures, advertising, equipment, and other materials. Probably no single factor has been of greater importance in the success of chain store merchandising than the buying advantage.

Quantity Purchasing.—Specifically, what has given the chain stores their buying superiority? Undoubtedly one of the major reasons has been not only the ability to purchase in large quantities but to concentrate those purchases with one source or with a few suppliers. The chain store, by its specialization in certain lines of goods and its common practice of restricting its items to those in large demand, is able to give a manufacturer a contract for several months' or a year's supply instead of following the hand-to-mouth buying practice which has been so common among independent merchants. With a contract for a large order before him, the manufacturer is able to figure his costs more closely and at times to bring them down to extremely low levels.

To illustrate the matter of large purchases, the Woolworth organization in one year purchased 90 million pounds of candy and 20 million pieces of enameled ware. In another organization annual purchases from one biscuit and cracker manufacturer amounted to more than $10 millions and there were other purchases of such amounts as 50 million pounds of coffee, 200 million pounds of sugar, and 200 million cakes of soap. A department store chain has made annual purchases of 4 million handkerchiefs, 6 million knitted undergarments, 2½ million men's and boys' overalls, 4½ million men's and boys' shirts, and 200,000 dozen pairs of women's hose.[1]

In 1934 the Great Atlantic & Pacific Tea Company's purchases from General Foods totaled about $8,000,000.[2] The same company had a contract with the California Packing Company for a definite purchase of 2½ million cases of Del Monte label products at a 5 per cent quantity discount. The A. and P. actually took during the time of the contract 3½ million cases. Some idea of this enormous bargaining power may be further had when it is considered that the A. and P. Company makes total annual purchases amounting to more than $800,000,000 and other large chains make purchases in proportionate amounts.[3]

Since the quantity purchased vitally affects the price paid, chains have secured reductions that were not usually obtained by their independent competitors. Just how much this buying advantage has contributed to chain store development is difficult to ascertain but the Federal Trade Commission studies have revealed that the proportion of the chain grocery store price advantage represented by the buying advantage varied from 18 per cent to as high as 45 per cent in the four cities studied.[4]

Skilled Buying.—In addition to securing economies through the purchase of larger lots than are normally bought by most wholesalers, chains employ skilled buyers and enjoy the benefits

[1] NYSTROM, P. H., "Chain Stores," rev. ed., Chamber of Commerce of United States of America, 1930, p. 25. Unless so stated, it is not to be understood that these purchases were confined to one manufacturer.

[2] Patman Investigation, Unrevised Committee Printing, U.S. Government Printing Office, July 9, 1935, p. 251. Statement of Mr. Parr, assistant to the purchasing agent of the A. and P. Company.

[3] Federal Trade Commission, "Chain Stores—Final Report," p. 24, U.S. Government Printing Office, Washington, 1935.

[4] *Ibid*, p. 54.

of their specialization. Buyers with years of training and experience in their particular field select just the type of merchandise that will meet the desires of the store's customers. The chain store depends on wise buyers to choose out of hundreds of items in any line the few best sellers. The chains know that the average customer bulks her buying in towels or hosiery or lingerie at three or four prices in each line and therefore the chains, too, bulk their merchandise investment and offerings at those prices. The independent retailer without the same keen appreciation of his customers' buying habits, may offer hosiery at 13 different prices, towels at 10 prices, lingerie at 11 prices, and yet miss completely one or two of the best price lines in each group. Customers may prefer pink or blue, but the independent retailer, unguided by expert headquarters opinion, offers her green which she rejects.[1] It must not be supposed that the above indictment is true of all independent merchants but it is entirely too common among the exponents of small-scale merchandising.

Expert chain store buyers, specializing in a very limited field, are able to keep in constant touch with the market and to take advantage of favorable opportunities as they arise. Not only that, but their companies, by scientific analysis, chemical tests, and other devices, can select merchandise on its merits and not by intuition or hearsay.

Financial Strength.—Through their superior financial resources, chains are generally able to pay cash for their purchases whenever a favorable opportunity presents itself. Many manufacturers when in need of ready money turn to chain stores with offers of special discounts, and even though chains do not always pay cash, they enjoy special consideration because of their superior credit standing.

Special Discounts and Allowances.—Perhaps the major buying advantage which the chains have enjoyed in the past has been the special discounts and allowances which they have been able to secure. That these more or less secret concessions were a major factor in the development of the chain store has long been suspected but it was not until the Federal Trade Commission and the Patman Committee investigators brought out the facts that their extent and magnitude became known.

[1] BEDELL, CLYDE, "Whiskered Wholesaling," *Electrical West*, July 1, 1932, p. 27.

The Federal Trade Commission study of 1930 revealed that in the grocery trade, though the chain stores did but 44 per cent of the total retail grocery business, they secured 90 per cent of the special discounts and allowances[1] granted, wholesalers and cooperatives receiving the balance.[2] The special discounts and allowances which were granted were given largely for volume purchases or for advertising. In the grocery trade, volume allowances constituted 43 per cent of the total allowances made in 1930; advertising, 41 per cent; and miscellaneous, 16 per cent. To suggest that these concessions were entirely unearned is hardly fair. Certainly at least part of the allowances for advertising was utilized by the chains for the purposes for which they were intended, but the mere fact that they were secret leads one strongly to suspect that they were secured largely because of superior bargaining ability.

These secret concessions have enabled chains to secure a competitive advantage over their independent rivals which the latter have found difficult to overcome. When the total volume of secret discounts and allowances is compared to total retail sales volume, it may seem like an insignificant factor, but when applied to specific items it is entirely another matter. For example, the Patman investigation revealed that in the case of the Great Atlantic & Pacific Tea Company the total secret allowances amounted to approximately $8,000,000 in 1934 or about 1 per cent of the total retail sales of the company, which, when viewed casually, does not seem like a major competitive factor. However, specific instances present another picture. Take, for example, the case of one prominent tea packer who allowed the company in question an extra 10 cents per pound on all tea sold

[1] The Federal Trade Commission has defined special discounts and allowances as, "all forms of discounts, excluding cash discounts . . . , which are not shown by the manufacturer on the face of the invoice, but which are subsequently paid or allowed by them to chain stores, wholesalers, or other dealers. . . . They do not, therefore, include the usual trade discounts and allowances which are customarily shown on the face of the invoice as deductions from the gross total." Federal Trade Commission, Special Discounts and Allowances to Chain and Independent Distributors, Tobacco Trade, p. 8, U.S. Government Printing Office, Washington, 1934.

[2] Federal Trade Commission, "Chain Stores—Special Discounts and Allowances to Chain and Independent Distributors, Grocery Trade," p. 4, U.S. Government Printing Office, Washington, 1934.

during a specific period,[1] or the yeast manufacturer who allowed this same chain a flat monthly advertising allowance of $12,000, a 10 per cent quantity discount, and the usual jobber's discount.[2] And these are not isolated cases; they appear to be examples of common practices when selling to large-scale buyers. After examining the list of manufacturers who granted special prices to chains, one can understand more readily the attitude of the independent merchant in clamoring for the enactment of the Robinson-Patman Bill. He felt that he was helping subsidize the chain store through the higher prices he was forced to pay to manufacturers so that the chains might make his continuance in business more difficult, and he sought legislation to remove that rather unfair advantage.

That the chains are entitled to certain special discounts is not to be denied. For one thing, they do not practice hand-to-mouth buying to a large extent; they make long-term contracts with a manufacturer which enable him to use the most economical type of machinery and turn out his product on a decreasing cost basis. They do not require the manufacturer to carry spot stocks or employ expensive missionary salesmen.[3] One sales contact by the manufacturer's salesman with a chain buyer will sell as much merchandise for him as would several calls on wholesalers.

Chains enable the manufacturer readily to determine consumer tastes and fancies. It is claimed that "all sorts of complex investigations and surveys have failed to produce an index of consumer demand that can approach in accuracy and speed the trend of actual sales in a group of geographically diverse but individually similar retail stores."[4]

But, it is claimed, wholesalers also do forward buying and independent retailers also give point-of-sales promotional services and still they receive no special discounts and allowances anywhere equal or proportionate to those received by chains. There is also a point beyond which quantity purchases mean little or no additional savings to the manufacturer.

[1] Patman Investigation, *op. cit.*, p. 284.

[2] *Ibid.*

[3] Deute, A. H., "Do Jobbers Deserve the Same Prices as Chains and Mail Order Houses?" *Printers' Ink*, Feb. 12, 1931, pp. 3, 4, 6, 8, 114.

[4] Morrill, A. H., "What the Chain Does for the Food Manufacturer," *Food Industries*, January, 1932, pp. 11, 12.

Volume or promotional allowances are justified in so far as they are based upon value received, and if the chains are in a better position to give this service than the wholesaler or independent retailer, then they are entitled to them. But it seems that a large part of the allowances given is not based upon value received, but is tantamount to quoting a lower price and takes the form of a rebate. It is a rather strange situation for a manufacturer of well-known goods to have to pay a chain organization to sell those goods when in reality that is the purpose for which the chain is organized.

Under the Robinson-Patman Act which became law in June, 1936, the chains are to be deprived of some of their unearned allowances but only a "Pollyanna" would suggest that they are to be stripped of them all. But it will probably be some time before a chain can again secure better than 50 per cent of its net profit from special discounts and allowances as the Great Atlantic & Pacific Tea Company did in 1934.[1]

Chains Have a Low Cost of Doing Business.—The second major advantage of the chain store is its ability to operate at lower costs than its independent competitor, and it can do this largely because of certain savings which it is able to effect. The successful chains have foreseen the necessity for reducing distribution costs and, by constant vigilance as to expenses and the natural savings of mass operation, they have been able to widen profit margins and at the same time reduce prices to the consumer. In 1929, for which such complete data are extant, chain systems in the grocery trade operated on a 17.3 per cent margin as contrasted with 24.7 per cent for the independent wholesaler-retailer method.[2]

Integration of Retailing with Wholesaling.—Just what savings have enabled chains to reduce operating costs? First of all there is the savings due to the coordination of wholesaling and retailing. By performing the functions of both wholesaler and retailer the chain is able to effect certain economies in operation that the

[1] In 1934 this company showed a profit of more than $16,000,000 and paid $14,000,000 in dividends after receiving something more than $8,000,000 from brokerage fees, special discounts, and allowances. Patman Investigation, *op. cit.*, p. 305.

[2] ENGLE, N. H., "The Marketing Structure of the Grocery Industry," *Harvard Business Review*, April, 1934, pp. 337–338.

ordinary wholesaler-retailer channel of distribution has so far been unable to achieve on any large scale. Few wholesalers can secure a sufficient portion of a given store's business to enable them to match the chain economies in getting the physical goods from warehouse to store.[1] Except possibly in the case of certain voluntary chains, this has been impossible. Again, the chain does not have to sell its merchandise to individual stores; it merely ships goods to them as needed and in that way it escapes the heaviest item of the jobbers' operating expenses—an item that represents about 25 per cent of its total operating costs.[2] Neither does the chain incur expense in extending credit or in collecting accounts, for there are no dealings with outside customers except to a very limited extent.

While no complete data for each type of business in which chain stores operate are available, yet there can be little doubt that the chain performs the jobber's functions at considerably less cost than that incurred by general-line service wholesalers. For example, in the grocery field the 1933 Census of American Business revealed that the cost of doing business of general-line service wholesalers amounted to 9.3 per cent of net sales, whereas the cost of doing business of chain store warehouses was but 4.3 per cent of net sales.[3] But the average chain store warehouse in the grocery trade *handles* but approximately 70 per cent of the goods *billed* through it. When allowance is made for this fact, the cost of performing the wholesaling function on the part of chain store warehouses becomes approximately 6 per cent rather than 4.3 per cent. Even this larger figure represents a considerable reduction in cost by comparison with regular wholesalers. This reduction is brought about partly through the curtailment of functions actually performed and partly through more effective control and, perhaps, also through more efficient performance of the remaining functions. In this connection, it is interesting to note

[1] SCHMALZ, CARL N., "Independent Stores versus Chains in the Grocery Field," *Harvard Business Review*, July, 1931, p. 434.

[2] MILLARD, J. W., "The Wholesale Grocer's Problems," U.S. Department of Commerce, Washington, 1928. In this study it was stated that the total wholesale grocery selling expense amounted to 25.94 per cent of all expenses.

[3] "Wholesale Distribution," Vol. I, Table 2-B, U.S. Department of Commerce, Washington, May, 1935. For a complete discussion of costs, see Chap. IX.

that if the independent retail grocer cares to patronize a cash-and-carry wholesaler, he is able to secure his merchandise at lower costs, for the operating expenses of such wholesalers are also around 6 per cent. In addition to savings in wholesaling costs, the chain eliminates the wholesaler's net profit, small as it may be, thereby bringing about an additional economy through integration.

Lower Salaries and Wages.—Chain stores, through specialization in personnel and the use of relatively cheaper help in their stores, are able to effect further operating economies. The Federal Trade Commission study revealed that in each of the eight kinds of business furnishing comparable data, the independent stores paid their employees substantially higher wages than did the chain stores. The accompanying table clearly indicates this tendency of the independent merchants to pay their employees more generously.

TABLE 8.—A COMPARISON OF CHAIN AND INDEPENDENT STORE WAGES OF FULL-TIME SELLING EMPLOYEES FOR THE WEEK ENDING JAN. 10, 1931

Type of store	Average weekly wages, independent employees	Average weekly wages, chain store employees	Average net difference
Grocery and meat	$25.90	$18.98	$6.92
Shoes	33.48	27.83	5.65
Dry goods	25.06	19.61	5.44
Drug	30.07	25.07	5.00
Grocery	24.91	20.40	4.51
Ready-to-wear	31 11	26.77	4.34
Tobacco	25.52	23.77	1.75
Hardware	28.77	28.12	0.65
Total, simple average	28.10	23.82	4.28
Total, weighted average	28.48	21.61	6.87

Source: Federal Trade Commission, "Chain Stores—Chain Stoie Wages," p. 19, U.S. Government Printing Office, Washington, 1933.

This study embraces 1,549 independent stores and 55,627 chain stores. A similar Federal Trade Commission study undertaken in 30 selected small towns ranging in population from 1,737 to 5,106 revealed that the weekly wages of full-time selling

employees of independent merchants exceeded those of chain store employees by almost $3.[1]

Although both of these studies might be criticized because of the small sample, yet the fact that in practically every type of store studied, the chains paid their employees lower wages than their independent competitors seems clearly to indicate that the chain stores are effecting a material savings in wages. If further proof of this point is necessary, it may be found in the 1933 Census of American Business. According to this investigation the average annual earnings of full-time chain store employees was $1,079. The comparable figure for full-time independent employees amounts to $1,194, if it is assumed that independent store proprietors are to be paid a $30 weekly wage which is much lower than the average wage paid to managers of chain store units.[2]

It is not the purpose of the authors to analyze at this point the social justice of the wages paid by chains or independents, but rather to bring out the point (and it is amply supported by factual evidence) that the chains are able to secure labor at lower costs than are their independent competitors. Part of this saving is due to their ability to use relatively cheaper help because of the standardized procedure developed at headquarters, part is probably due to the feeling that a large company offers more opportunities for promotion or that the job has more permanence than work with a small individual merchant, and part is due to their ability to specialize their functions so that each can be performed more economically. The cost of highly skilled and well-paid experts can be spread over a number of units.

Smaller Inventories.—Another advantage of the chain is in inventory float, or in interest saved through a faster stock turnover. The chains confine themselves to standard merchandise for which there is a high average demand; they do not stock their shelves with slow-moving goods. A chain grocery store usually has from 800 to 1,200 items, whereas most independent grocers carry from 1,500 up to 2,000 items.[3]

[1] Federal Trade Commission, "Chain Stores—Chain Store Wages," p. 21, U.S. Government Printing Office, Washington, 1933.

[2] Census of American Business: 1933, Retail Distribution, p. 26 The $30 wage for proprietors is purely an arbitrary amount which the authors feel may be considered conservative compensation.

[3] Nystrom, P. H., "Economics of Retailing," 3d ed., Vol. I, p. 253, Ronald Press Company, New York, 1930.

Fewer Services.—The chain store achieves further economies by limiting its services to the consumer. Chain stores have developed a reputation for doing a cash-and-carry business and, of course, everyone knows that it is cheaper to do that kind of business than the full-service type. They have eliminated this cost without seriously inconveniencing their customers because of the widespread use of automobiles and few consumers stop to realize that they are assuming part of the middleman's function by carrying home their groceries themselves or by paying cash at time of purchase.

Just how prevalent the custom of eliminating services is among chain stores can be gathered from a study of the various lines of business in which chains operate. In eleven types of business, including groceries and meats, drugs, and dry goods and apparel, 95 per cent of the sales are apparently for cash. In the lines which we generally associate with chain stores (groceries, groceries and meat, drug) practically all of the business is done on a cash basis.[1] Also the larger chains were found to have eliminated more services than the smaller chains. For example, the organizations operating more than 1,000 stores did all their business on a cash basis, while the chains of 2 to 5 stores did only 43.4 per cent cash business.

The Federal Trade Commission reports that 80.8 per cent of the chain stores of the United States gave no delivery service or if they did it was negligible in amount, and in the larger chains it was practically eliminated, since less than one-half per cent of the sales of chains with more than 1,000 units were actually delivered. However, in the smaller chains, with 6 to 10 stores each, the practice of delivery was more prevalent, since 38 per cent of their sales were delivered.[2]

Just how much is actually saved by the elimination of these services? In the year 1924 the Harvard Bureau of Business Research found that 110 stores, all with charge sales amounting to 75 per cent or more of their total sales, commonly had a total expense (not including interest) amounting to 18.2 per cent as compared to the corresponding figure of 14.55 per cent for 46 stores in each of which cash sales amounted to 78 per cent or more

[1] Federal Trade Commission, "Chain Stores, Final Report," p. 75, U.S. Government Printing Office, Washington, 1932.

[2] *Ibid.*, p. 76.

of total sales. The assumption is that the stores selling for cash did not offer delivery service to the same extent as stores selling for credit. Thus there is a difference in cost of 3.65 per cent which may be taken as fairly representative of delivery and credit extension cost. "There are grounds for believing that possibly one-half of the expense savings realized by grocery chains as compared to the wholesaler-retailer channel of distribution accrue from the elimination or substantial reduction of these services."[1]

A more recent and undoubtedly conservative estimate of the savings brought about by the elimination of services is to be found in the data compiled by Dun & Bradstreet, Inc., in their "1936 Retail Survey." This study reveals that the cost of rendering credit and delivery services is 2 per cent in grocery stores and 2.4 per cent in combination grocery and meat stores.[2] There are sound reasons for believing that these figures are more truly representative of actual conditions today than are earlier figures. However, Mr. Carl W. Dipman, editor of the *Progressive Grocer* stated in July, 1935, "insofar as one can generalize, it appears that credit service when properly rendered need not add more than 2 per cent to the operating expense, and, likewise, delivery service, when properly and efficiently rendered, in general, need not add more than 2 per cent, making a total of 4 per cent."[3] From the available data it would appear that the cost of rendering service varies from 2 per cent to 4 per cent, with 3 per cent representing a close approximation of actual conditions. Although the service savings will vary with individual stores, it is readily apparent that this saving affords the chain stores an important competitive cost advantage which they fully utilized.

Benefits of Standardization.—The ability of chain stores to utilize standardization to its fullest extent has tended further to reduce their operating costs. They have standardized their store fronts, displays, merchandise, policies, the greetings of their salespeople, and they are still seeking more factors to stand-

[1] McNair, M. P., "Expenses and Profits in Grocery Chain Business in 1929," p. 19, Harvard Bureau of Business Research, Cambridge, Mass.

[2] The difference in the cost of doing business between cash grocery stores and grocery stores doing more than 50 per cent credit is 2 per cent according to the Dun & Bradstreet figures. For combination food stores the difference in cost is 2.4 per cent.

[3] Dipman, Carl W., "Operating Expenses of Selected Cash Stores," *Progressive Grocer*, July, 1935, p. 74.

ardize. Chains do not leave to the whims of the individual store managers the working out of displays or the selection of types of merchandise. These are matters for the attention of highly skilled experts at the home office, specialists whose sole duties are concerned with the effective solution of each of these individual problems. The interior of each unit of the apparel chain is decorated in an attractive shade of pink whose reflective coloring has been found to be flattering to most women. Had this been left to the store manager perhaps he would have selected a ghastly green whose unflattering atmosphere would have killed many a sale. As far as possible the merchandise handled is standardized. Only those items that can be sold in volume are stocked. They are applying the principle of mass production to merchandising, finding out what people want and then concentrating their energies on those products.

Secondary Business Advantages.—Buying advantages and low cost of operation are not the only advantages which have played a major part in the development of chain stores. That they possess certain advertising advantages, that they are usually better financed, that they have superior facilities for research and experimentation, that they enjoy a certain valuable prestige because of their size and reputation, that they select their locations scientifically, and that they have a superior ability for manufacturing and distributing private brands are all matters to which most chains lay claim to a certain extent over their typical independent competitor. Practically all of these are inherently part of large-scale merchandising and therefore are denied to most small shopkeepers.

Advertising has been classified here as a secondary advantage, not because it is unimportant, but rather because it is less important than the two major advantages which have been previously discussed. That chain stores have marked advertising advantages over neighborhood unit stores must be readily admitted. What individual small store operator can purchase large space in his city's daily newspaper, broadcast regularly over the local radio station, or purchase space in magazines of national reputation? The waste circulation in any such venture would make the advertising cost prohibitive for the independent, but the chain with its numerous units finds the same sort of advertising economical. Individual merchants combining into voluntary chains

are able to achieve somewhat the same results but even in this instance the chains occupy a favored position.

When the relative financial status of chains and independents is considered, we must once again recognize a definite balance in favor of the chains. With their large size, their geographical distribution of risk, and their general policy of selling for cash, chain stores find it a much easier task to maintain strong, liquid financial positions than do independents. If it becomes necessary to borrow money, chains find that bankers are willing to lend at rates considerably under the rates the local merchant pays. One instance may be cited, as illustrative, where a chain borrowed money for 90 days at 1½ per cent annual interest when local merchants of good financial reputation were paying 6 per cent.

Chains operating a considerable number of units are able to maintain a research department and to conduct experiments on a scale and at a cost that is prohibitive to all but the largest independent retailers. The best methods from the individual units can be adapted to all units of the system. Various merchandising plans, store designs, displays, or advertising programs may be experimented with in one or several units without danger of causing any serious loss to the organization as a whole. A novel type of store design can be tried in one location and, if it proves successful, can be adopted universally. An independent finds this sort of experimentation too precarious.

Owing to its very size, the chain secures a certain amount of prestige that helps draw patronage. Consumers become familiar with the chain name through advertising, through the financial and news columns of their local paper, in conversation with their friends, and from seeing various units of the chain in its many locations. It apparently is human nature to follow the crowd and the average individual assumes that if so many others trade at that particular chain store, perhaps they will also benefit by following suit.

Chain organizations are more careful in the location of their outlets than the average independent merchant. Large chains have separate real estate departments to select locations and to handle leasing and rentals. The selection of store sites has been made a scientific problem by chain real estate experts and guesswork has been reduced to a minimum. Traffic is not only counted

but it is analyzed as to sex, purpose in passing, and buying power. Communities are studied as to character of population, type and stability of industries, local buying habits, and strength of competition. When a chain store settles upon a definite location, it usually has a good estimate of the volume of business it may expect. Few independents have access to the same type of impartial information on store sites.

Some chains are able to manufacture and distribute successfully their own privately branded merchandise, and today, more than ever before, this appears as a distinct advantage. With some forty-odd states having fair-trade laws in operation and with the Robinson-Patman Act in effect, the savings that chains are able to achieve through manufacturing their own merchandise appear particularly timely. Specifically, the reasons chains have given for engaging in manufacturing are that it enables them to control sources of supply, that they can secure their goods at lower cost, that they can sell at lower prices, that they give consumers better values, and that they can partially circumvent some of the more recent types of legislation which they regard as discriminatory. However, the advantages of manufacturing their own products are not available to all. Only those chains which do a large volume business in specific lines can manufacture profitably. This is especially true of apparel and of the larger food and drug chains.

ECONOMIC ADVANTAGES OF CHAIN STORE OPERATION

In addition to the purely business advantages which chain stores possess, they have certain inherent economic advantages which are not generally enjoyed by smaller retail institutions. These advantages arise principally out of the peculiar economic nature of business. Certain enterprises are able to profit to a greater degree than some competitors merely because of our highly developed economic structure.

Risk Distribution.—One of the most obvious economic advantages is the one involving the distribution of risk. As the chain generally operates units over a wide geographical area, it is not necessarily dependent on any one community for its prosperity. If local business conditions are bad in one locality, the profits from stores operated in more prosperous areas will help offset the losses in the former. The independent merchant, on the

other hand, is much more seriously affected by local conditions since he has only his own community to depend on for his success. This same width of market enables chain stores to transfer slow-moving stock from some of their stores to units in which the demand for such goods is very much greater.

Chain Merchandising is One of Decreasing Costs.—One of the fundamental reasons for chain store success lies in the simple fact that "it is more economical to run two stores than it is to run one, that it is more economical to operate 100 stores than 10, that it is more economical to operate 1,000 stores than 100, and so on."[1] Economies are effected by adding units so that costs can be spread over a larger volume of business. Of course, not all chains can operate on a decreasing cost basis, but it does seem that many do. We do know that as more units are added to a productive combination, the time will come when the average return per unit will begin to decrease, and if too many units are added, the time will come when net profits begin to decrease. Few chain store operators admit that their chain has reached the point of diminishing returns, and an inspection of chain store profits will reveal the reason. An examination of the data in Table 9 reveals quite clearly that in the majority of cases the percentage of net profit for the larger chains is greater than it is for the smaller ones. The $1 limited variety chains are a good example. The net operating profit in this line climbs from 2.81 per cent for chains of two to five stores until it averages 10.47 per cent for chains of more than 1,000 units. Of course, not *all* of the larger chains are able to net more profit than the smaller ones, but many factors such as variations in managerial skill, territorial differences, etc., would account for these deviations. The significant fact is that in most instances the larger chains are able to earn a substantially higher rate of net profit.

Some may wonder why operating expenses instead of net profits were not used to substantiate the assertion that chain retailing is essentially a business of decreasing costs. However, a true picture of the situation can not be secured from an inspection of expenses alone. The available statistics (or at least the Federal Trade Commission reports) include all chain costs, and, as the larger chains engage more extensively in their own wholesaling

[1] Bloomfield, Daniel, "Trends in Retail Distribution," p. 256, H. W. Wilson Co., New York, 1930.

and manufacturing, their expenses include costs which are not incurred by the smaller chains. If it were possible to differentiate the various expenses, then comparable data could be secured.

TABLE 9.—PERCENTAGE OF NET PROFIT TO SALES, BY SIZE OF CHAIN

Kind of chain	Number of stores per chain								
	2–5	6–10	11–25	26–50	51–100	101–500	501–1,000	1,001, and over	Average
Confectionery	2.53	6 57	8.48	7.95	−1.44	11.21	....	.....	6.04
Drug	2.91	4 03	4.41	4.13	4.38	4.92	2.49	.....	4.21
Dry goods and apparel	3.41	4 34	3.64	−0.14	4.52	8.56	7.43	5.72	5.93
Grocery	2.15	1.66	1.52	1.66	1.93	2 63	1.68	2.23	2 10
Grocery and meat	1.98	1.91	1.68	2.22	2.04	1.86	2.42	2.98	2.82
Men's and women's shoes	4 95	1.63	2.55	2.86	0.94	4.19	....	.....	3.17
Millinery	2.84	2.00	2.44	1.51	1.97	2.90	....	.....	2.36
Tobacco	1.37	0.25	0 30	1.34	−0.32	3.79	....	2.60	2.68
Variety ($1 limit)	2 81	3 20	6.17	6.58	4.49	8.60	9.75	10.47	9.16
Women's ready-to wear	2 53	5.71	3.12	5.56	4.97	4 37	....	.....	4.35
Women's shoes	0.97	1 24	4.08	2.42	6.77	7.59	....	.....	3.45

Source: Federal Trade Commission, "Chain Stores—Sales, Costs, and Profits of Retail Chains," pp. 54–55, U.S. Government Printing Office, Washington, 1933. Only those lines of business are included in this table in which there were chains in most of the size groups.

Another point that bears out the assertion that chain retailing is one of decreasing costs is that the courts have quite generally given their approval to graduated license taxes. By legalizing this tax the courts have placed their tacit stamp of approval on the principle of increasing returns for chains with increases in the number of units. The courts have repeatedly held that chain stores possess advantages and opportunities not possessed by single-store operators and that the larger chains possess them to a greater degree than the smaller ones.[1] In the West Virginia chain store tax decision the United States Supreme Court said, "A chain is a distinctive business species, with its own capacities and functions. Broadly speaking, its opportunities and powers

[1] See decisions in Florida and Indiana cases before the United States Supreme Court: *Liggett v. Lee*, 288 U.S. 517,532, 1933; *State Board of Tax Commissioners v. Jackson*, 283 U.S. 257, 1931.

become greater with the number of component units, and the greater they become the more far reaching are the consequences, both social and economic."[1]

Varying Prices.—One very important economic advantage of chain store operation is the ability to vary prices, not only within the same city but between different cities and different sections of the country. The chain is able to average its profit results obtained from the different stores, the high profits obtained from one section of stores offsetting the low returns from another group of stores. It may charge what the traffic will bear or what competition will allow.

Few of the chains interviewed by representatives of the Federal Trade Commission kept strict control of competitive prices from headquarters but gave some store managers and district officials authority in this matter, thus giving to these people a strong competitive weapon. Chain store officials indicated " . . . that it is a quite usual practice among them to cut prices locally not only to meet, but to go below, the prices of their competitors in that locality, while maintaining prices in their other stores."[2]

Out of 537 reasons given for price variation by 401 intersectional and intercity chains, about 36 per cent of the reasons were to the effect that competition was the cause for such a policy. In the case of 142 intra-city chains, 37.5 per cent of the reasons cited competition as the cause for a varying price policy within the same city while about 11 per cent, the second highest percentage, were based on the difference in class of customers or neighborhood.[3]

A representative of the Great Atlantic & Pacific Tea Company, testifying before the Patman Investigating Committee on July 9, 1935, stated that the two factors in deciding the company's retail prices were cost and competition. He stated that his organization felt that they must undersell the independent to the extent of the service in respect to credit extension and delivery which the latter gives.

Some may say that this is all very good and true, but since the chain has many outlets and the independent has only one, the

[1] *Fox v. Standard Oil Co.*, New Jersey, 294 U.S. 87–99 (1935).

[2] The Federal Trade Commission, "Chain Stores—Chain Store Price Policies," p. vi, U.S. Government Printing Office, Washington, 1934.

[3] *Ibid.*, p. 74.

chain encounters competition at many more places and many more times than does the independent and therefore this ability to average prices means little in the way of an advantage. Of course, there is truth to this, but it lessens the advantage very little. Price cutting is of great significance to the independent, or small chain for that matter, because it affects his total business, and thus means much more to the smaller than the larger competitors. It is not likely that all the units of a large chain will be engaged in a price war at the same time. This averaging process is one advantage that the cooperative or voluntary chain cannot attempt to attain for its members.

A certain chain organization with an average investment of $969,000 over a period of years in the Cincinnati territory " . . . had an annual loss of considerably more than their total investment in that territory while they were driving the independents out of business." From 1930 to 1933 the same organization had an average investment of $813,250 in Los Angeles, Calif., " . . . and an actual loss during those years of $862,918." In the years 1926 and 1927 this organization's loss in Dallas, Tex., was $50,000 more than its capital investment, " . . . whereas in other cities in this country it showed that at the same time, where they had got control, as in the Bronx, in New York, they made as much as 150 per cent on their capital invested; and in other cities in this country, where they had complete control and set the prices; they made enormous profits."[1] Thus the profits of other stores may be used by the chain for price cutting in any one locality.

Summary of Chain Store Advantages.—In summarizing the advantages which chain stores possess, it would seem that they center largely around the result of scientific retailing which can best be attempted when merchandise is distributed in volume. That chain stores as a group operate more efficiently than their ordinary independent competitors as a group has been proved by practically every comparative price or cost study that has covered these factors. This ability to undersell is the direct result of certain advantages which are inherent in chain store merchandising. Among the business advantages are the vitally important

[1] The Patman Investigation (Revised Printing, July 31, Aug. 8 and 9, 1935), p. 141, U.S. Government Printing Office, Washington. Statement of Wright Patman, Chairman.

ability to buy cheaply, the facility to operate at low costs, and certain secondary advantages such as advertising, financial resources, and others. Among the economic advantages which are partially responsible are the dispersion of risks, the decreasing cost nature of the business, and the opportunity to vary prices to meet local conditions.

Though some of the advantages mentioned above are denied the independent merchant, most of them are available to aggressive small-scale merchandisers who choose to use them. By applying the same principles of scientific retailing and by utilizing group buying, the independent can secure the major advantages which the chain possesses. That they have taken their cue from the chain store and are adopting large-scale retailing principles to their own businesses seems readily apparent. A glance through the comparative price studies made during the past several years reveals a very definite trend in the diminishing size of the price differential between chain store and independent-store prices.[1] For example, the earliest grocery investigation found a price difference of more than 10 per cent in favor of the chains, but the latest study of the same line of trade reveals less than a 5 per cent differential. That this is indicative of the declining importance of chain store advantages is a reasonable assumption.

Some of the advantages which chain stores possess might be termed unfair. Certainly chain store operators are open to criticism for having paid their employees less than independent operators did, and it is not to their credit that they have clubbed manufacturers into selling them goods at unfair discounts. It is only a question of time before the chain store will be deprived of these unfair advantages, and even when this does happen, it will still require a very efficient independent merchant to compete successfully against the legitimate advantages which the chain will always possess.

[1] A more complete discussion of this point will be found in Chap. VII.

CHAPTER V

CHAIN STORE DISADVANTAGES AND LIMITATIONS

To the vast majority of the American public the chain store has appeared as a new form of business colossus destined to replace the independent merchant. This apparently invincible business giant whose invasion of the retailing field seemed so successful some few years ago has been found to have pregnable armor. No longer does the intelligent independent look to the future with dismay, for he knows that the further progress of chains is beset with numerous obstacles. The chain system has developed several serious disadvantages, and certain limiting factors have appeared to impede its further growth. Not that chain stores have suddenly found themselves face-to-face with insurmountable obstacles. Such is definitely not the case. Rather the chains have discovered that they, too, are subject to many of the natural disadvantages of other large-scale retailing institutions and in addition suffer from several special disadvantages. These have all tended to curb the rapid progress of chain stores and it is not beyond the realm of possibility that they may actually cause a decline in the relative importance of this form of retailing. As yet, however, these disadvantages have not proved a definite barrier to further progress; instead they are merely slowing up chain store growth.

In the discussion of chain store weaknesses which follows, no attempt will be made to distinguish between disadvantages and limitations, on the ground that fundamentally they tend to have essentially similar effects. Both definitely tend to check chain store progress. Again, no attempt will be made to discuss the economic or social disadvantages of chain stores. That phase of the discussion is reserved for Chaps. XIV and XV. Consequently, the treatment of chain store disadvantages in this chapter will be confined to purely business disadvantages.

Chain Merchandising Not Adaptable to All Types of Goods.—A study of the chain store situation reveals the fact that this system of merchandising is not equally adaptable to all lines of retailing.

The data in Table 5 indicate that despite the progress chain stores have made in retailing generally, there are certain fields in which they have found it difficult to operate successfully. For example, in the hardware and jewelry trades they do but a very small share of the total volume, whereas in the variety store sphere they have virtually eliminated the independent merchant.

It is not so much that certain types of business have been overlooked by chains, but rather that certain kinds of retailing are less susceptible to the chain method of operation. Where a great diversity of items must be handled as in hardware, difficulties are encountered. Minute care and supervision are necessary in order to maintain balanced stocks and carelessness on the part of the local manager may result in a serious lack of essential items or in excessive inventories of unsalable or slow moving merchandise.

Further difficulties are found in those businesses which require considerable discretion on the part of individual store managers and which do not readily lend themselves to extensive standardization. To entrust responsibility and authority extensively to unit managers is something that chains ordinarily shun. In lines of trade without definite price schedules or with multiple-price systems, chains find it particularly difficult to operate successfully. The same is true of trades in which contract work prevails, as each contract offers a particularized pricing problem and complicated sales promotion and installation duties.

Lack of Personal Contact with Customers.—Like other large-scale retailers, chain stores suffer disadvantages in the lack of personal contact between their management and the public. A chain store patron rarely comes in contact with the owners or major executives of the business and his relations with the store are confined to meetings with the rank and file of subordinate employees. Even though those workers, because of a desire for promotion or to retain their jobs, and with a certain amount of training and supervision, may produce some measure of efficiency, they, nevertheless, usually function with less effectiveness than do the owners of small businesses with their sharpened personal interest in customers. It is the age-old principle of self-interest stimulating individual initiative to produce effective results. An owner naturally takes more interest in the welfare of his customers than does a hired worker.

The independent store has an individuality which is largely a reflection of the personality of its owner. This characteristic may be friendly, it may be cold, it may be good, or it may be bad, but, whatever else it is, it is distinctive. The chain, on the other hand, has a standardized, corporate personality which undoubtedly appeals to many, but its impersonal character does not attract consumers to the same extent that the independents' distinctiveness does.

The independent merchant usually realizes that he must serve his individual customers as they wish to be served or his entire business existence is imperiled. The chain store manager, on the other hand, feels that even though the success of his particular store may be of considerable importance to his own career, the success or failure of the chain is not dependent on the accomplishments of this one single unit. Customers are often aware of that attitude and appreciate the individual attention the independent merchant can give them. The extent of the pulling power exerted by the personality of chain managers and employees on the one hand and of the independents on the other is shown in Chaps. XII and XIII. Quite frequently, however, the independent merchant interprets his designation too literally and acts much too independent toward his customers. On this score, they must be severely criticized, although as a class they do not deserve such criticism.

Chains are at a disadvantage when competing with independents, inasmuch as their competition of management must be by proxy. The independent-store manager operates directly and in personal contact with his business, whereas chain store management experts must act indirectly through assistants. The value of the experts' work is almost certain to lose some of its quality and inspiration as it flows outward through the mechanism of the organization.[1]

Relative Inflexibility of Chain Merchandising.—Closely akin to the lack of personal contact is the relative inflexibility of chain stores. Chain merchandising is essentially based on the principle of standardization. Store fronts, equipment, merchandise, advertising, services, and even selling are all standardized. This uniformity has its virtues and certain economies are effected

[1] NYSTROM, P. H., "Chain Stores," p. 17, Chamber of Commerce of United States of America, Washington, 1928.

thereby, but at the same time the chains find it difficult to adapt themselves to local conditions as readily as the independent merchant can. The latter makes his store, his policies, and his merchandise fit the needs of those whom he seeks to serve. If he is in the grocery business, he may handle almost any brand of merchandise his particular customers may desire or offer them the type of service that he knows will appeal to them. But can the chain store manager do the same? Hardly! He is permitted some leeway, of course, but he is apt to be confined to the particular brands that sell best in the other stores of the chain and, in the matter of service, he will probably find himself limited to that which can be rendered effectively by all of the organization's units, although some notable exceptions to this may now be found.

The distance between the consumer and the chain executives who determine management policy makes it necessary to operate on a highly standardized basis in order to effect those economies which are necessary to chain store success. That standardization has its virtues is obvious and in order to secure those advantages, chain stores have found it necessary to sacrifice a certain amount of flexibility. In some lines of business this lack of adaptability has proved to be a distinct impediment to the progress of chains. This has been especially true of the shopping and speciality goods fields. Chains have made rapid strides in those fields only since they sacrificed some of the standardization, placed more responsibility in and allowed more discretion to the individual store managers. However, in certain lines of business, as in groceries, where high-priced unit managers would prove too costly, only limited discretion can be given to such managers; hence the relative inflexibility becomes an inherent part of chain management in such lines of trade.

Personnel Problems.—One of the most pressing problems facing the chains is that of personnel and employee morale. As the chain organization grows in size, the personnel problem becomes increasingly complex. More and more the work of the organization must be carried on by subordinate employees. The management is forced to delegate a larger share of the responsibility and authority to minor executives, and the skill with which the latter perform these duties may well determine the ultimate success of the enterprise.

Scientific selection, training, and supervision of chain store employees become a virtual necessity for successful merchandising. It becomes increasingly important to have each worker carefully selected for his job and then properly trained in his duties. This condition makes it necessary to expand considerably the functions and facilities of the personnel department. The expense of conducting training programs for store managers and other employees rises and, in companies with high rates of labor turnover, the costs are likely to become excessive. If a store manager leaves to work for a competitor or to operate an independent store, the benefits of his training are largely dissipated, at least from the viewpoint of his previous employers. From a social and economic point of view, however, as will be shown in a later chapter, there is a decided gain from this training and to that extent the chain method of merchandising has contributed to the growing efficiency in retail merchandising.

Furthermore, as the chain continues to grow, it becomes increasingly difficult to inculcate the spirit of achievement in employees. In an enormous organization an employee will begin to feel that he does not have an even chance for advancement and that wage increases are dependent largely upon things other than his own ability and achievements. There are many store managers who feel, however, that they are destined for and capable of achieving greater things than their present position holds for them, although they may be definitely limited in their abilities. It is this problem of keeping such individuals satisfied, and yet ambitious, that the chains must continue to face in the future.[1] Partly on this account and partly because of the relatively limited economic opportunities, certain chains have adopted the policy of hiring individuals with average abilities. For example, some chains seldom hire from among college graduates the students who proved to possess superior qualities in scholarship or campus leadership.

Another phase of the personnel problem that the chains find handicaps them is that it becomes increasingly difficult to fill satisfactorily the higher executive positions in the organization. In a small organization the functions are simple and employees holding responsible positions find it comparatively easy to per-

[1] CLARK, FRED E., "Readings in Marketing," rev. ed., p. 365, The Macmillan Company, New York, 1933.

form their duties well. As the organization grows, these same functions become vastly more complex and, in many instances, the job has completely outgrown the man. For example, the store manager may be able to do a highly satisfactory job in that capacity but when promoted to managership of a group of stores in a given district, he may find himself unable to perform his new functions satisfactorily and to cope with his problems as an executive with vision and foresight should.

Problems of Handling Style Goods.—It is frequently said that style or fashion goods cannot be merchandised centrally and, therefore, can never amount to much in a chain way. Many a chain store antagonist has been whistling in the dark by saying that "you can't chain fashion. You can't buy hats like hair pins, nor evening wraps like eggs. You can't merchandise dresses centrally. No buyer in New York can select style goods for stores in other cities. Every store is different and every city is different. Maybe, you can buy bedding centrally, but not apparel." But it is being done, and being done successfully, profitably, and increasingly.[1] A glance at Table 5 should convince even the most skeptical that chain stores can and do handle style goods successfully. We find that 50 per cent of the shoe store business and 25.5 per cent of the women's ready-to-wear store volume were done by chains in 1935. In both of these lines the chains registered a substantial gain over 1929.

That it is more difficult for chain organizations to handle fashion goods than convenience goods is undoubtedly true. It is not an easy task for the central office to determine accurately the merchandise needs of the individual retail units, which may vary with local tastes. Nor is it a simple matter to place responsibility for unsatisfactory results when the purchase of goods is separated from the sale. Department and individually operated specialty stores generally find it necessary to combine the functions of purchase and sale in order to secure efficient merchandising. The chains have met this difficulty by shifting more responsibility to the individual store managers. In some cases they have given such managers more freedom in the selection of goods by allowing them to choose their merchandise from a range of patterns and styles contracted for by the central buying

[1] GUERNSEY, JOHN, "Retailing Tomorrow," p. 145, Textile Publishing Company, New York, 1929.

office. In other instances representatives from the purchasing office call on store managers with a line of samples from which selections for the individual stores are made. Some of the chains operating large units have found it advisable to have each store do its own buying. Furthermore, with the greater use of automobiles and the more frequent attendance of motion pictures, the distinction in styles in different sections of the country and in varying-sized communities is fast disappearing. Not only is there a tendency for people throughout the country to be influenced by the same type of merchandise, but also to adopt the same style simultaneously. Whatever style lag still exists is rapidly diminishing in importance. All this plays into the hands of chains.

Another difficulty chain stores are facing in the handling of style merchandise is in price reductions. Style obsolescence or local competitive conditions may make it necessary to reduce prices very promptly. Chain stores, with their concentration of authority, frequently find it inconvenient to act speedily in such cases and serious losses may occur as a result of the delay or from the necessity of having the central office act without an adequate knowledge of local conditions, unless such matters become solely the prerogative of the unit managers.

Style goods, more than any other type of merchandise, must be adapted to the desires of a store's patrons. Because of their inherent nature, chain stores should be at a disadvantage when competing with independents in fashion lines. However, as indicated above, that has not been the case, largely because they have attempted to locate their units in communities where the customers and their problems are nearly identical and because of the other factors previously indicated. They have certainly made progress in these fields, and so it may be truthfully stated that the difficulties of merchandising style goods by chain stores have been considerably overrated in the past.

Association with Price Merchandising.—Almost from the date of their origin chain stores have been merchandising price. In their advertising, in merchandise stocks, and in selling methods they have emphasized the price appeal. They have helped foster a price consciousness in the mind of the American consumer which does not always react to their own advantage. Although low price does not necessarily infer that the merchandise is of inferior

quality, still the public generally feels that it may have to sacrifice quality, style, or some other feature in return for the savings resulting from paying reduced prices. This has not proved to be a material handicap to chains in the convenience-goods field. But in certain lines of trade and among some classes of consumers this does prove to be a stumbling block. In the upper price levels of the apparel field consumers are less responsive to the price appeal and that is one reason that the chains have not made more progress in that sphere.

Another disadvantage resulting from a price emphasis is that trade bound to a store because of this appeal is usually not very securely tied to that particular store. Persons seeking bargains are readily lured from store to store in their quest for maximum values. They continue to patronize their favorite stores only so long as they feel that no other store is offering better "buys."

As long as chain stores are able to maintain their price advantage through their ability to buy for less or to operate at lower cost, an emphasis on price is frequently a decided advantage in drawing trade from competing establishments. As they lose this ability to sell for less (and they are losing some of it through improved efficiency among independents and as a result of various types of legislation) then the bargain atmosphere surrounding many chain stores becomes less appealing to consumers. It then becomes necessary to compete with independents along lines in which the latter are less handicapped, such as quality, service, convenience, and personality.

Lack of Service.—While the elimination of services such as the extension of credit and delivery reduces chain store costs, at the same time it has the effect of limiting patronage. Many consumers feel that they would rather enjoy these services than save a few pennies by going without them. There are many others, on the other hand, who feel inclined to visit retail stores, pay cash, and bring home their own purchases in order to effect these same economies. The widespread use of automobiles has encouraged consumers to patronize cash-and-carry stores, but there is still a vast body of them who balk at the inconvenience caused by lack of service, especially credit and delivery.

Not all chain stores have eliminated services. On the contrary, in lines such as jewelry, clothing, and furniture, they feature all the services normally rendered by independents, and many even

go beyond by offering unusually liberal credit accommodations. Nor is the extension of service limited to those businesses. Only recently it was discovered that 50 per cent of the chain grocery stores in highly competitive centers like New York and Boston are extending either delivery or credit service to their customers.[1]

When chain stores extend services they naturally increase their costs and lessen their ability to undersell the independent. The higher the costs go, the more likely they are to lose their price advantage over independent stores. It is hardly possible that an effective price appeal can be coupled with the expenses incident to the extension of services.

Antagonistic Public Opinion.—In the past few years the chain stores have encountered hostility on the part of the public. Some of this has been engendered by the vicious attacks of certain individuals who have seen in it an opportunity to further their own personal interests; some has been due to the sentiment aroused by their independent competitors, and some is just part of the natural prejudice which the public apparently feels toward big business.

Various and sundry charges have been leveled against chain stores, some of which are without foundation in fact, but which have, nevertheless, had their effect on the public mind. Chain stores have endured attacks from many quarters which have had some detrimental effect on their volume of business. A poll conducted by the Institute of Public Relations in 1936 revealed that about 70 per cent of the persons interviewed felt that chain stores should be legislated against in one form or another. To few other types of business is attached the stigma in the public mind from which the chains suffer.

Some of this ill will has been due undoubtedly to chain store practices. Chains were slow to realize that they had a public relations problem to solve. It was not until the latter part of the twenties that they began to donate extensively to charitable organizations and partake in movements for community betterment. Recently certain chains, notably The S. S. Kresge Company and Montgomery Ward, have adopted the policy of active participation in local activities. The chains are now beginning to realize that there is more to merchandising and distribution of

[1] CORBALEY, GORDON C., "Group Selling by 100,000 Retailers," p. 141, American Institute of Food Distribution, Inc., New York, 1936.

goods than mere price appeal. As a matter of self-protection they must build good will in the eyes of the public. They are now showing a tardy appreciation of the value of favorable public opinion and many of them are actively engaged in wooing the public.

Growing Competition.—In the early part of their expansion, chain stores encountered little opposition from the average independent. Apparently, merchants were demoralized by this new retail titan. But it was not long before the independent merchants awakened to the need for fighting back. They found that by adopting chain store methods they could compete more effectively. As the weaker merchants were driven out of business the stronger ones survived, and the general level of competitive ability among independent merchants was raised. Independents were not slow in discovering that they could profitably adopt efficient chain store practices; stores were cleaned up; windows decorated; and retail clerks trained. Superfluous brands, price lines, and sizes were reduced or eliminated. Better display methods and advertising practices were adopted. The chain stores are now finding that the 1937 independent is not the same independent they encountered 10 and 15 years ago.

The independents have met chain competition in still another way, by joining cooperative buying organizations. Realizing that one of the major chain store advantages was that of buying, independents banded together in buying groups and in voluntary chains in an effort to secure their merchandise at costs comparable to those obtained by the chains. Potentially, such organizations have the ability to place the independents on a merchandising par with chains. In fact, it is entirely possible that with the advantages of personal initiative, ambition, ownership, intimate customer contacts, added services, and similar superior characteristics, the corporate chains may be hard pressed to maintain their position.

Not only are the chains faced with increased competition from the more intelligent and well-organized independents, but they are beginning to feel the intense competition of other chains. The chains have been spreading rapidly in the face of independent opposition, but in many lines they have reached the point where their major competition is now coming from other multiple-store groups. It is a much more difficult problem now that they face

competititors who possess inherently all of their own advantages. The financial difficulties of some chains and the diminishing profits of others in the last few years give ample evidence of the increasing competition that chains are encountering among themselves. It has indeed become a battle of giants.

Another competitive situation facing chain stores is that of overlapping lines carried by chains presumably operating in other fields. The drug stores are carrying grocery items and in some cases even wearing apparel, and in retaliation the grocery chain stores have placed patent medicines on their shelves and frequently have installed soda fountains. Certainly, the variety stores have encroached upon the restaurant, dry goods, department, and grocery chain fields.

Recently, chain stores have begun to encounter a newer and more invincible type of competition. The rapid expansion of supermarkets in the food field has presented serious difficulties for the grocery and meat chains and has even affected drugs. Possessing a lower cost of doing business and offering a wider selection of merchandise than one commonly finds in chain food stores, this new competition is proving formidable. Supermarkets have a cost advantage due largely to self-service and low rentals which enable them to save probably one-third of the operating expenses of the average chain food store. This new type of competition has been probably the primary factor in inducing chains to open larger stores of their own and also actually adopting the supermarket method of operation. A more detailed discussion of the supermarkets and their effects upon regular chains will be presented in the last chapter of this volume.

Legislative Handicaps.—Many problems in the form of legislative restrictions are also plaguing the chains today. Special taxes have been levied against them, their buying advantages have been curtailed by the Robinson-Patman Act, their price advantage has been lessened by state fair-trade laws, and now increased surplus taxes are restricting their ability to expand.

In twenty states chain store taxes are now in effect. These taxes vary from a few dollars to $550 per unit per year, as is the case in Louisiana. In practically every instance the tax imposed is a graduated tax which increases with the number of stores; for example, the Michigan Act taxes the first two stores $10; the next three $25 each; the next five, $100 each; and all stores in excess of

25 pay $250 each. In the case of Idaho all stores over 19 pay $500 a year each. The principle of graduated chain store license taxes has been declared constitutional by the United States Supreme Court and the chains are finding it increasingly difficult successfully to fight this restriction on their business. As long as the taxes are not excessive, they do not curtail chain store expansion, but in many cases they are proving a serious burden in the filling station and grocery fields. Few chain filling stations can afford to pay the $250 license tax which the state of West Virginia levies nor can the smaller units of grocery chains in Idaho well afford to pay the $500 tax which that state exacts.

As long as there is a crying need for revenue, combined with the pressure from independent retailer and wholesaler groups, chain store taxes will probably be extended rather than curtailed. To date they have not seriously handicapped chain stores except in certain states and in lines of business where the profit or sales per unit are small. The tendency, however, is for the chain store tax to increase in severity, and, while the tax is not as yet prohibitive, it may prove to be a formidable disadvantage as independents increase their efficiency and meet the chains on more even ground. It may then be possible that the taxes will be an important limiting factor in further chain expansion.

One of the most recent bits of legislation to hamper the chain store has been the Robinson-Patman Law which reduces some of the buying advantages of chains. Under the provisions of this act, as it is now being enforced, the chains are finding it difficult to secure the same special discounts and allowances which they have enjoyed in the past. Should they be materially deprived of this advantage, they will find it increasingly difficult to undersell the independent merchant. Just what new developments may be expected as a result of this legislation are indicated in Chap. XVII.

The speed with which the state legislatures have enacted fair-trade laws may soon make it extremely difficult for chain stores to undersell independents on nationally branded items. Some 42 states now have fair-trade laws in effect, and it is expected that a total of 44 states will soon have such laws on their statute books (see Chap. XVII). As the chain stores are deprived of their price weapon, their ability to compete against the up-to-date independent will proportionally diminish.

In the past, chain stores have financed their expansion largely through the reinvestment of their earnings. With the new Federal legislation which taxes reinvested earnings at a higher rate than earnings paid out in dividends, it will be more difficult for chains to expand in that fashion. Stockholders will naturally clamor for a distribution of earnings in the form of cash dividends. This, of course, will tend to limit the desire for expansion, or at least it will make the policy of expansion more expensive than it has previously been.

CHAPTER VI

CHAIN STORE PRICES

Importance of Prices to Consumers.—In a modern capitalistic economy, every commodity or service competes with all other commodities and services for the consumer's dollar. Out of everyday contacts with his environment, needs arise which the consumer wishes to satisfy through the consumption or use of specific goods and services. Because of the limited purchasing power of the average consumer, in making the choice of a given product he must give careful consideration to the price charged, eliminate those goods which have a negative utility or for which too high a price must be paid, evaluate the utility ratios of the remaining products, and finally select the most desirable item or the one which will presumably yield the maximum utility or the greatest satisfaction.

It must be emphasized that to most persons price is an important determinant of choice of product, as well as source of supply, although it is not the sole consideration as will be shown in a later chapter. Assuming similar quality, price has a powerful appeal to the majority of consumers, for the reason that most of them have decidedly restricted purchasing power. For the 38 million persons employed in gainful occupations during the year 1935 (exclusive of work relief employees), the average per capita income for the year was only $1,201,[1] and even in 1929 the per capita figure for the 44 millions then employed was but $1,466. This limited purchasing power of the millions of workers is further restricted during a period of depression in at least two ways: the number of employed is drastically reduced so that the wherewithal of several million workers is completely removed, and the dollar income of those remaining gainfully employed is greatly decreased so that for the 35 millions employed in 1933 the per capita income was but $1,097.

[1] "National Income of the United States, 1929–1935," U.S. Department of Commerce, Washington, 1936.

While both sexes are influenced by a price appeal, its effect upon women is more pronounced than on men. This fact takes on added significance when it is remembered that the great majority of the purchases of the type of merchandise handled by chains are made primarily or entirely by women. It may even be said that the typical consumer is a woman. The appeal of a "bargain" or of getting something for nothing is so ingrained in the human being, especially women, that it is one of the strongest motivating forces for shopping around.

That price is an important factor is further evident from the numerous ways in which it has been attempted to obscure the actual amount asked or to bring it to the forefront of the consumer's consciousness. Odd prices, charging customary prices but inconspicuously reducing the quantity offered, breaking down the price to small amounts as in installment selling and in the variety stores—these are but a few of the illustrative cases.

It is, of course, true that a consumer's demand is a combined demand for the article itself and for the services necessary to put it into his possession in the manner desired and under the conditions deemed advisable. He may often be willing to pay a substantial part of the price for the service rendered. Consequently, charges made for services are important factors in the determination of prices paid by consumers, so that when price comparisons are made, similarity in both service and quality must be assumed; otherwise the results are likely to present a distorted picture.

Why Comparative Price Studies Are Essential.—Appreciating the important role which price plays in our economic system, it is obvious that an intelligent attack on the chain store problem must include a careful analysis of this phase of chain merchandising. Comparative price studies of chain and independent store selling prices must be made in order that the soundness of the chain store method of operation from the economic point of view may be measured. It is only through such a study that we may determine whether the chain store should be accepted as a socially desirable business institution.

A second reason for comparing chain store prices with those of independents is to ascertain to what extent chain store advantages are shared with the consumer through lower prices. That the chains possess certain inherent advantages over many

competing types of retailing is not to be denied, but from a strictly consumer's viewpoint chain stores are welcome only so long as they pass along some of their advantages in the form of lower prices or greater value, other factors such as quality and service remaining the same. Has this actually happened? Have chain stores saved consumers the hundreds of millions of dollars which their defenders have claimed? Only carefully made comparative price studies will reveal the answer.

A third reason for special attention to this aspect of the chain store problem has been the effort to determine the ability of chain stores to absorb special taxes levied upon them through an increase in the price of their goods without materially lessening their ability to undersell their independent competitors. In other words, just how much may chain stores be taxed without actually putting them out of business or seriously curtailing their trade-pulling power?

Inadequacy of Material on Chain Store Prices.—Up to the present time, some seventeen separate studies of comparative chain and independent-store prices have been conducted since the year 1929 for one or more of the reasons enumerated in the preceding paragraphs. Of these studies, 9 were made during the first three years of this period, and only 8 have been conducted in the past four years. Although at first glance 17 investigations might seem sufficient for a thorough analysis of the chain and independent-store comparative-price problem, yet a more careful examination of these studies reveals that only a small portion of the available material has been unearthed. All but two of the studies were confined to groceries. The other two, namely the one conducted by the Federal Trade Commission and that conducted by one of the authors of this book, in addition to groceries, covered drugs and several other lines of merchandise. Inasmuch as groceries only constitute some 30 per cent of the total chain store volume, it would appear that a very important portion of the chain store price picture has been neglected. Another factor that makes one realize how inadequate our price information has been, is that with the same two exceptions, the studies were confined to a single community each. In one other instance, however, five communities were included but they were so small as to be almost inconsequential.[1]

[1] The 17 studies of chain store prices so far made are:

For the sake of scientific accuracy, chains must not be treated as a class. Common sense would indicate that not all kinds of chains are able to undersell independents by the same amount and that the larger chains are in a better position to offer lower prices to consumers than the smaller ones. Practical expediency points in the same direction. So far as the authors were able to discover, every license tax now in effect and aimed at chains is on a graduated basis, the chains operating large numbers of stores

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paying higher taxes than those operating but a few, the assumption being that the chains with more store units have greater ability to pay taxes. Yet only one study has been made, to date, that compares prices of chains according to the number of stores operated in the state in question. The results of this particular study are rather startling but not wholly unexpected by students of chain merchandising.

To make the story complete, it is also necessary to differentiate between regular independents and those who are affiliated with some voluntary group, since the latter type of store is presumably using chain store methods and techniques to a greater degree than the ordinary independent. Only 3 of the 17 studies have drawn this distinction in their fact-finding efforts.

In view of the foregoing, it would appear that price data are still too meager and inadequate to enable us to draw conclusions as to the superiority of chains over independents, from the standpoint of the price advantage to consumers. Most of the studies were confined to a small town and to a single line of business. Moreover, they treated chains as a group and accorded similar treatment to independents. Finally, the number of items used in the research was so limited and the technique so poor in some instances as to invalidate the results of the investigations. It is believed that by far the most extensive study of this type was that conducted by one of the authors, inasmuch as it covered 72 communities, large and small, throughout an entire state, and embraced several distinct lines of business, and in each instance included a large number of items.

Results of Poor Technique in Conducting Price Studies.—The only way in which accurate results can be obtained in comparative-price studies, as in any other scientific research, is by the use of the proper technique. If improper methods are used, distorted or inadequate conclusions are bound to follow. In the price differential studies made in the past, numerous examples of improper technique are discernible. However, in fairness to those persons who have conducted these investigations, it must be admitted that a frequent cause of defective methods has been either the lack of facilities or a shortage of funds with which to conduct the studies properly. But whatever the causes, poor technique leads to the following effects:

1. It commonly results in an attempt to compare the incomparable. For example, some studies revealed that price comparisons were made between national and private brands. Obviously, they are not comparable.

2. Inadequate samples. If substantial evidence is to be gathered, the sample must be large enough to be truly indicative of the conditions or prices studied.

3. Even though the sample as a whole may be adequate, it may not be representative of the types of stores studied, or of the variety and volume importance of the merchandise handled in the stores. There is ample opportunity for error to creep in at this point and special care must be taken to see that the stores covered and the commodities chosen are really representative.

4. Faulty canvassing and pricing account for some of the wide variations in prices which are observable from an examination of the price studies.

5. Improper computations are one of the least excusable results of poor technique. One study would show completely reversed results if the figures used had been carried to two instead of one decimal place.

6. The improper choice of averages used for the presentation of the data means that a distorted picture of the situation is revealed. Averages are dangerous unless they are handled by skilled technicians.

7. And last, but by no means least, are the colored results that are inaccurate and misleading. The only results that are worth while are those that directly flow from unbiased information, honestly secured, scientifically handled, and impartially presented.

A Scientific Approach to the Problem of Chain Store Prices.— Since few comprehensive studies have been made in the past without some trace of the poor technique described in the above list, and because price competition has been undergoing rapid changes in recent years in the retail field, more complete and properly executed chain store price studies must be made in the future. For this reason it may not be inappropriate to outline what the authors regard as good procedure in conducting such studies. The following presentation of technique is further justified in order that the reader may re-examine the 17 com-

parative price studies that have been made to this date, and determine for himself which of them are faulty and inaccurate and which can stand the test.

In any attempt to study chain store prices scientifically in comparison with the prices charged by independents it becomes essential to follow a well-defined plan of attack. Such procedure should deal with the proper selection of the articles on which prices are to be compared, a proper choice of stores to be canvassed, careful preparation of the schedules, wise selection and training of canvassers or interviewers, testing the accuracy of the field work, skillful editing of the data collected, choice of the best statistical average or averages for the presentation of the data, unbiased presentation of the results, and an objective but thorough analysis and interpretation of the findings.

Selecting Articles for Pricing.—One of the first problems that presents itself relates to the proper selection of commodities or products for comparative price purposes. It is suggested that the following criteria should govern the choice of articles selected:

1. Each commodity selected for the study of price relationships should be branded, packaged, or otherwise carefully identified through specifications in order to insure uniform quality and absolute comparability.
2. The articles chosen should be of types easily recognized by investigators in the event that wholehearted cooperation on the part of the respondents is not forthcoming.
3. Each item should be so chosen as to avoid confusion on the score of size. In practically every instance the particular size to be priced should be specified and that size should be selected which is normally stocked by both chain stores and independents and is fairly representative of the item involved.
4. Only those items should be selected which are carried by both chains and independents.
5. Only such articles should be selected as were likely to be found in the majority of stores, both chains and independents, regardless of size of stores or their locations. This is necessary to insure proper representation not only by type of store but also by geographical area, store size, and type of communities.
6. The commodities selected should be representative of their respective groups. For example, the items of breakfast foods selected should be fairly representative of the entire line of breakfast foods. They must include slow-moving articles as well as "fast-sellers."

7. The aggregate of the items included in the survey for any given line of business should be truly representative of the commodities used in the average home.

8. The aggregate of the items selected should give a true cross section of the stock of goods carried by the average store, independent or chain, in each of the kinds of business included in the survey, and in the lines of merchandise represented by the selected commodities. Only in this way would it be possible to depict actual conditions in the stores of the two systems of distribution involved.[1]

Following these criteria, it will be found necessary to eliminate from the items selected for study those articles which are not generally handled by chain stores or by independents and commodities which do not lend themselves to price comparison because of differences in quality or brand. Practically none of the bulk merchandise or privately branded items are subject to true comparison, and therefore should be omitted, even though the latter in many instances would constitute the major portion of a store's sales. Because of the many complicated factors, true price comparison can only be made when products identical in every respect are selected.

Selecting Stores for the Canvass.—In very few instances will it be found necessary to canvass all or even a large proportion of the retail stores in the area to be surveyed, unless the entire territory is small. If the investigator has ample funds, a larger sample may be advisable. To studies of this nature statisticians recognize the applicability of a fundamental principle of sampling, namely, that as the total number of stores in the universe increases, the proportion of stores to be sampled may decrease. For example, one of the investigators found that almost a 100 per cent sample was necessary when comparative prices were studied in Durham, N. C., a city of 50,000 persons.[2] On the other hand, another investigator concluded that a 4.6 per cent sample proved accurate in a Chicago study.[3]

The Florida study, which is to be discussed in the following two chapters, utilized a 30.2 per cent sample to guard against any

[1] BECKMAN, T. N., "Prices in Chain and Independent Stores in Florida," p. 8.

[2] TAYLOR, MALCOLM B., "Prices in Chain and Independent Stores in Durham, N.C.," *Harvard Business Review*, January, 1930.

[3] PALMER, J. L., "Study of Prices of Chain and Independent Grocers in Chicago," University of Chicago Press, Chicago, 1930.

charge of lack of scientific method. Yet it was felt that a 6 per cent sample actually was sufficient accurately to portray the price situation in the entire state.

Preparation of Schedules.—Much care must be exercised in the preparation of the schedules on which the price data are to be recorded, even when the field work is done by carefully trained investigators. Statisticians, advertising agencies, and others who have conducted surveys and made analyses of data gathered firsthand, all appreciate the importance of schedules properly prepared. Not only do such schedules facilitate the work during the canvass and when the tabulations are made, but they are equally significant from the standpoint of accuracy in both of the processes. Especially is it important that schedules be carefully prepared when they call for special information as to services rendered, type of store canvassed, its relationship to other stores in the organization, kinds of goods handled, and the like. To do this scientifically, special skill is required which may be best attained after considerable experience in this kind of work.

Collecting the Data in the Field.—Numerous problems arise in planning and conducting the field canvass. First of all, the investigators must be carefully selected and instructed, if the data they are to secure are to be reliable. Many of the price studies made in the past have utilized college students of marketing without previous research experience. As far as the authors know, only the Federal Trade Commission and the Florida studies made use of trained investigators who had had experience in collecting economic data. Even such investigators must be carefully coached and provided with the necessary written instructions.

Most of the price studies have omitted special sale prices on items. Unless the study is to include a period of several weeks as the Federal Trade Commission survey did, the results should be more conservative if special prices are excluded.

Chain store price data are usually more accurate when the respective chain store units are visited by an investigator instead of securing the information from a central office. It has been found that prices have varied considerably in units of the same chain, in the same city, and on the same date. If the chain store headquarters are contacted for prices this phase of the problem

is completely overlooked and the results are correspondingly colored.

One more point must not be lost sight of when collecting data in the field and that is that all price quotations in the same locality should be secured on the same date. Prices vary from time to time and discrepancies would creep in which could be prevented if the prices were all secured on the same date. Further precautions might be taken to insure accurate pricing such as calling for the information on certain days which reflect normal operations, and for investigators so to conduct themselves as to reduce bias to a minimum.

Testing the Conditions.—Better results are obtained usually if the quotations secured are tested. For instance, in the Florida study, investigators conducted a separate probationary test in five cities. Fifteen grocery and fifteen drug items were purchased immediately after other investigators had collected price quotations in the same stores on the identical items. This was done after the original canvass was completed. If no appreciable difference between the prices quoted and those paid for the items is found, it may be assumed that the quoted prices are valid. Actual purchase tests are costly to make, however, usually running into hundreds of dollars. Consequently, they are normally omitted despite their unquestioned validity.

Editing the Data.—The raw data collected in the canvass must be carefully edited before tabulation, to reduce errors to a minimum. Editors must check the schedules to eliminate prices entirely out of line, to exclude prices that pertain to other sizes, and to omit commodities with too few quotations. To perform the function of editing properly, discretion, judgment, careful instructions, and experience are required. Because of the difficulty of setting up rigid rules, the general principle of editing must be followed, *viz.*, that prices are assumed to be right until proved in error. Moreover, a decision to throw out a price may depend upon the knowledge of the cost of other items in the schedule, other prices quoted in the same schedule, sizes of packages, location of the store, and the amount of service rendered by the retailer. In general, when the results of a price study are reported, the editing methods should be described.

Compiling the Statistics and Selecting the Average.—Having edited and tallied the price data, the next logical step is to choose

some measure to express the average price of each commodity, and then the average price of all items taken together under both distributions. The representation of a series of prices by an average, a single typical figure, is "justified because of the tendency of large masses of figures to cluster about a central value from which the values of all observed cases depend, with more or less regularity of smoothness."[1] There are several possible measures of central tendency available. The arithmetic mean, the median, the mode, the geometric mean, and, under certain circumstances, the harmonic mean may be used. Each of these has its peculiar advantages and limitations.

The Arithmetic Mean.—The arithmetic mean or simple arithmetic average is merely the summation of values of all units divided by the total number of units. Thus the mean of the units 2, 5, 6, 7, is equal to the sum of the values of the units, 20, divided by the number of units, 4, or an average of 5. This average is simple to compute and easily understood. Moreover, it is affected by the values of each unit of the series, and is especially desirable if the range of values is narrow. The arithmetic mean is said, however, to have an upward bias, that is, it gives more than the proportion of weight to articles of high unit value. It is a fictitious or computed number, and may not be the value of any of the units in the series.

The Median.—As an alternative, it is possible to find the median price, which is the middle price in any series of prices arranged in the order of magnitude. Thus, when commodity *A* sells at 10 cents, *B* at 22 cents, *C* at 36 cents, *D* at 43 cents, and *E* at 60 cents, the median price is the middle figure, 36 cents. Except when the data are grouped into class intervals or when the number of items included is even, this measure has the advantage of being a real or actual number found in the exact center of the array. It is relatively easy to compute, and the concept of the median is a thoroughly simple one to grasp. It is primarily applicable when the data are not homogeneous because it is affected in no way by extreme prices. But therein lies its principal disadvantage. Since it is a *position* average and no recognition is given to the range or spread of prices from low to high, its use is limited.

[1] Mills, F. C., "Statistical Methods," p. 111, Henry Holt & Company, New York, 1924.

The Mode.—In some cases it is necessary to find that price which occurs most often. Assume that commodities A, B, and C have prices of 10 cents each, D and E can be purchased at 8 cents, and F at 5 cents. The modal price is 10 cents since it is quoted most often, three times. The mode has the advantages characteristic of the median. It is an actual, not a computed, figure except in the case of frequency distributions. No particular technical training is necessary to visualize and understand it. Statisticians favor using the mode as a measure of central tendency when the data are not homogeneous because it is a position average and gives no more weight to extreme values than to others. When the data are not unimodal, *i.e.*, frequencies appear to be concentrated at two or more different prices, the mode is obviously ineffective. This is often the case in comparative chain store price studies.

The Geometric Mean.—The geometric average is really a variation of the arithmetic mean and consists of the anti-log of the summation of the logarithms of each price quotation divided by the number of prices. It is particularly advantageous because it is affected by all prices quoted and measures not absolute amounts but rates of change or differences. Thus, the effects of large absolute differences in units of high value tend to be minimized. For the same reason the effects of differences in commodities of low unit value tend to be maximized. But this average involves much more mathematical computation than the other averages mentioned. Furthermore, this mean is limited in its popular use since it is not universally understood. There is the added disadvantage that "downward changes are given more weight than equivalent upward changes, on the theory that it takes more force to cause a decrease of 50 per cent than to cause an increase of 50 per cent. This is based on the fact that the greatest possible decrease is only 100 per cent, whereas there is no limit to the possible amount of increase."[1]

The Harmonic Mean.—The harmonic mean is the reciprocal of the arithmetic mean of the reciprocals of the individual values. Dr. Mills speaks of it as a "type of average capable of application only within a restricted field. . . . The use of the harmonic mean in handling economic data may be illustrated if . . . a

[1] "Technique of Marketing Research." p. 369, McGraw-Hill Book Company, Inc., New York, 1937.

given commodity is quoted at 'so many per dollar.'"[1] Since prices are not generally quoted in this fashion, this average is not particularly fitted to chain store price studies.

From the above discussion, it follows that there is no perfect average for expressing results. Since a discriminating use of averages is essential to sound statistics, the task becomes one of choosing the least objectionable average. For practical purposes, one can eliminate the mode and median at the outset, because they are position averages and take no note of the range of prices. Having already omitted the harmonic mean from the discussion, there remain the arithmetic and geometric means. In one respect, the geometric average is desirable because it measures rates of change or differences rather than absolute amounts. But, on the other hand, it is not so simple to compute nor so well understood. If an average of relatives, instead of absolute amounts, were calculated by converting the prices into percentages, the result would be a special type of arithmetic average which measures rates of difference but is easily calculated. At the same time, the upward bias of the absolute-amount arithmetic mean has been largely corrected, thus eliminating overemphasized high values. It appears, in general, that the arithmetic mean in some form is most applicable for a study of price relationships.

The Averages Actually Used in Chain Store Price Studies.—Those who conduct price studies are confronted with two distinct problems. First, an average price for each commodity must be obtained, and in practically every survey that has been made to date the arithmetic average price has been used. The sum of the actual prices was divided by the total number of quotations, giving the average price for every commodity.

The second problem consists of selecting the measure to be used in expressing the average prices, also items in the aggregate for each type of store. It is possible to total the average price (in cents) of each commodity if purchased in chain stores and the average price (in cents) of each item, if bought from independent stores, and find what is known as the "market-basket" concept. That is, if one unit of each commodity were purchased in the average chain store, the total cost for the purchases would be equal to the sum attained. Or, conversely, if each item were

[1] MILLS, *op. cit.*, p. 141.

purchased in the average independent store in that line of business, the bill would equal the aggregate price for independent stores obtained above. Then, using one of the types of stores as a base equal to 100 per cent, the difference in average prices may be found expressed in percentages.[1] The Federal Trade Commission followed this technique.

The above procedure may be varied slightly by dividing the sum of the total average prices in cents for each commodity by the number of items, thus obtaining an average price in cents per commodity for each type of store. Setting one type of store equal to 100 per cent, the percentage difference is found. The Florida study employed this method along with others to be mentioned later.

A second major method is to calculate the percentage by which the average price of each item quoted by one type of store was less or more than the average price of the same item quoted by the other type of store. This resulted in the computation of the percentage savings per item. The total of these percentages divided by the number of items then gave an average of price ratios or the percentage by which the prices on the items priced in one type of store were less or more than those in the second. The Beckman, Palmer, Phillips, and Taylor studies used this type of average. It has the advantage of assigning an equal weight to each item, thereby minimizing the effect of the upward bias in an arithmetic average.

The Federal Trade Commission applied a combination of arithmetic and geometric means. Weights suggested by chain headquarters were applied to each item priced for both types of stores and an arithmetic average was taken. In addition, weights suggested by independent wholesalers were employed in the same fashion. Thus, two averages were obtained: the price

[1] Since the sum of the independent prices in cents is usually greater than the sum of the chain store prices, the results are more conservative if independent prices are used for the base. Thus:

	Independent	Chain	Differential
Average price per item.............	$0.25	$0.20	$0.05
Chain stores as base.....	125%	100%	25%
Independents as base	100%	80%	20%

relationship between independents and chain stores was expressed in terms of chain weights and also in terms of independent weights. Being an absolute-amount arithmetic average, there is bound to be an upward bias. To rectify this limitation, the Commission computed a geometric average of these two arithmetic averages and found what is known as Fisher's "ideal" index.[1] Thus the upward bias of the arithmetic averages is corrected by the downward bias of the geometric average.

Weighting the Averages.—Thus far in the discussion, the problem of what importance to place on each commodity has not been faced. It is common knowledge that not all of the items in a store are purchased in equal amounts or the same number of times in a given period. It is therefore desirable to weight them in such a way that those commodities used most often or those which loom larger in the family budget are given greater relative influence in the average.

The problem narrows down to one of choosing the proper weights. To secure the truest and most accurate data, results should be weighted by the actual amounts of each commodity consumed by the public. This information is not available, since it requires that housewives keep accounts of everything they purchase and the prices paid over a given period of time.

The next alternative is to use weighted data from cost-of-living studies made by research organizations. The best information along this line may be obtained from the Bureau of Labor statistics. But the basic data for these reports were gathered in 1918. Since then, distribution and consumption habits have changed so as to partially invalidate the use of this material for such purposes. More adequate data along this line are now being collected by the U.S. Department of Labor, partial results of which are already being published.

If the first two methods of choosing weights do not suffice, some data may be secured from retailers. But, again, such information is, at best, only an estimate, since many retailers do not keep sufficiently accurate records of sales by specific commodities.

As a last resort, we may look into the records of wholesalers and compute their sales to retailers from invoices, on a commodity basis. However, this procedure does not account for quantities sold directly from manufacturers to retailers and assumes that

[1] Mills, *op. cit.*, p. 215.

all volume quantities sold by wholesalers to retailers during a given period were also consumed during the same time. So even this method is open to question.

The question arises whether it would not be advisable to dispense with weights altogether, rather than resorting to inaccurate data. A test survey using the weights the Federal Trade Commission employed in Memphis revealed that the percentage difference in prices weighted or unweighted, were so nearly equal, that either method may be used to the exclusion of the other. Furthermore, the use of weights tends to maximize the price differential somewhat. As a result, unweighted averages tend to produce more conservative results.

CHAPTER VII

SELLING PRICES IN CHAIN AND INDEPENDENT GROCERY STORES

In an earlier chapter it has been shown that chain stores enjoy certain advantages that are peculiar to that method of retailing. This point has already been well established and is incontrovertible. But just what effect these advantages have or have had is a subject of perennial lively discussion and argument. Have such benefits merely resulted in larger net profits for the chains, or have the chains passed on all, or some, of the special gains to their customers? Chain store proponents have repeatedly pointed out that, by underselling other types of stores, they have rendered the public a great social service. They have called attention to the many millions of dollars which they have allegedly saved the consumer through lower prices. The various price studies that have been made to date, limited and meager though most of them are, all seem to corroborate the assertion of the chain stores and their friends that chain grocery stores generally undersell independently operated stores in the same field. To this, there is but one exception which is to be found in the relatively new institution, known as supermarkets, even when such retail stores are operated by independents.

In the light of our present knowledge it would be superfluous to conduct surveys or to make studies of the grocery trade with the sole aim of discovering whether or not chains offer the consumer lower prices than those charged by independents. But it is of vital importance to know *to what extent* or by what amount grocery stores operated by chains undersell, and the same query may well be directed to other lines of merchandise which will be discussed in the chapter immediately following. Is the amount by which chain grocery stores undersell independent grocers as large as it should be in view of the advantages which the former normally enjoy over the latter? Are the differences in prices large enough to permit chains to pass on all or part of the chain store

tax, levied by a given state, to the consumer through a raising of prices without destroying their competitive position in the field? In a word, can the chain store tax be passed back to consumers and at the same time enable the chains to continue to undersell by an appreciable amount? Are the chain classifications into the various tax brackets rational or arbitrary? To throw light on this point it is necessary to know whether and to what degree the longer chains, or those with more units, undersell the shorter ones.

A third aim in a study of selling prices in chain and independent stores is to ascertain the trend in such price differentials. Is there a tendency for these price differences to narrow or widen, and how will such a trend be affected by the various tax measures and other types of legislation? Fourth, to what extent, if any, does the price differential vary with the different types of merchandise? Is the consumer being deluded by the low prices charged on relatively few items into thinking that all items handled by chains are being sold at lower prices, or is the underselling practice of chains widespread among the various items in their stock? A fifth point to consider in a comparative-price analysis is the effect of the size of the community upon the underselling policy of chains, in order that one may better understand the real motives behind price cutting on the part of chains. Along the same line it is of considerable moment to ascertain whether and to what extent prices are affected by such services as credit and delivery.

An attempt is being made in this chapter to throw as much light on the questions just raised as possible, particularly in relation to the retail grocery business. This is done, first, by presenting the results of a careful and probably one of the most comprehensive price surveys conducted as late as 1935 by one of the authors; second, by summarizing the results of other worthwhile studies of the subject under consideration; and third, by interpreting the results in a succinct manner to make them understandable even to the intelligent layman.

THE FLORIDA GROCERY PRICE STUDY

The Grocery Store Schedule.—In selecting grocery commodities for pricing, a number of wholesalers and retailers in the grocery business were consulted. Lists of products used in the

studies made by the Federal Trade Commission and by private agencies were examined. The criteria outlined in Chap. VI were followed to a considerable extent in choosing the items for pricing, but were more rigidly applied in the process of editing and tabulation. Thus while prices were obtained on 145 grocery items, only 124 standard items were included in the final tabulations, 70 of which were identical in brand, quality, and size with those included in the Federal Trade Commission studies of price relationships. For a copy of the actual schedule used, see Appendix A.

After the canvass, the information was edited and the items divided into a number of appropriate groups. This was done to facilitate the tabulation of the price data and to make the analysis more intelligible and useful. The ten commodity groups into which the 124 grocery items, which were finally tabulated, were divided are shown below:

Bakery products.
Beverages.
Breakfast foods.
Canned fruits and vegetables.
Other canned goods.
Condiments and salad dressings.
Farinaceous foods.
Other food products.
Soaps and cleansers.
Other nonfood products.

Size and Representativeness of the Sample.—According to published reports of the Census of Business,[1] taken in 1936 for the year 1935, there were at the end of 1935 in the state of Florida 2,647 grocery stores (without meats) and 2,750 combination stores (groceries and meats), a total of 5,397 grocery stores. Since price data were collected from 533 grocery stores, the number of stores covered represents a sample of 9.9 per cent of all such stores in the entire state. Obviously, the size of the sample is grossly understated, since only certain areas in the state were canvassed for the survey, while the census figures cover all grocery stores, large and small, in the whole state.

[1] Census of Business: 1935, Retail Distribution, Vol. IV, "Types of Operation," pp. 63–64, U.S. Department of Commerce, Bureau of the Census, Washington, January, 1937.

Nevertheless, even a sample of 9.9 per cent would appear to be more than adequate. As already pointed out in a previous connection, in the Chicago study of grocery price relationships,[1] it was decided to use a sample of only 5 per cent out of a total of 6,000 grocery stores, and for independent grocers the sample was but 4.6 per cent. The authors of that study have found, after some checking, that the sample was representative and typical of the group of stores of which they were a part.

Distribution of Sample as between Chain Stores and Independents.—Of the 5,397 grocery stores in the state of Florida, 4,797 were independents, 508 were chain stores and 92 were of other types. This means that approximately 88.8 per cent of all the grocery stores in the state were operated by independents and 9.4 per cent by chains. To be sure, a great many of the independent grocery stores were very small, as evidenced by the fact that the relatively small number of chain stores did about a third of the grocery store business in the state, while 88.8 per cent of the stores, representing independents, did only 65.1 per cent of the business. In the sample study of price relationships, 265 independent grocery stores were included and 268 chain stores, representing 5.8 per cent and 52.7 per cent of the sample, respectively. It is, therefore, evident that while the sample as a whole is adequate and representative, it is heavily weighted by chain store figures. This circumstance would, therefore, tend to understate the price differences existing between chains and independents, particularly, as will be shown later, since a good proportion of the chain stores from which data were collected were in small communities, where chains generally undersell less than in the larger cities.

Stated otherwise, while there were in the entire state 4,797 independent grocery stores, the number of such stores included in the samples was 265 or 5.8 per cent, whereas in the case of chain stores, the sample included 268 of the 508 stores in the state, making a sample for grocery chains of about 53 per cent. This means, that while the sample for independent stores was adequate, for chains it was much more than adequate and, again, that care must be taken in the interpretation of the data because

[1] Bjorklund, Einar, and Palmer, J. L., "A Study of the Prices of Chain and Independent Grocers in Chicago," pp. 4–5, University of Chicago Press, Chicago, 1930.

of the unusually heavy representation of chains. For census purposes, a chain is an organization having four or more stores anywhere in the United States, and a chain store, therefore, is a store which is part of such an organization. However, in the 268 chain grocery stores covered by the survey, there are included some stores belonging to chains which operated only two or three units each.

Sample Measured in Terms of Commodities Included.—From the standpoint of the number of commodities or items on which prices were collected, the sample would also appear to be more than adequate. In only one study was the number of grocery commodities priced larger than in the Florida survey, and that was in the case of the Federal Trade Commission. As already indicated in the early part of this chapter, prices were collected on 145 grocery items. A number of these items were omitted from final tabulations for reasons indicated elsewhere, so that only 124 commodities were finally included. The number of items finally covered by the tabulations compares with 193 items used by the Commission in the Memphis grocery study of prices and margins, with 58 items used in the Lexington, Ky., study, with 61 items used in the Champaign-Urbana study, with 75 items used in the Chicago study, and with 50 items included in the New York City investigation. When it is remembered that in some of the studies referred to there were also included unstandardized commodities, such as fresh fruits and vegetables, it becomes evident that the number of items or commodities on which price data were collected in Florida is far more than representative of the classes of merchandise under survey. By using 124 commodities, this study has a larger base from the commodity standpoint than any of the other studies thus far published, with the exception of those made by the United States Government through the Federal Trade Commission.

Summary of Findings.—Summary Tables 10, 11, 12, and 13 have been prepared from the data secured in the Florida study. Table 10 sets forth the unweighted average price (although weighted by the number of quotations) for the 124 commodities. This average for independent or Class 1 grocery stores was 16.02 cents. For Class 2, or 2 to 3 unit chain grocery stores, it was 15.51 cents; for Class 4, 7 to 10 unit chains, 15.49 cents; for Class 5, 11 to 15 unit chains, 15.39 cents; and for chains with

16 stores or more, Class 6, the average price was 15.29 cents. There were no chains in the grocery business of the state with 4 to 6 retail units; consequently no data are shown for Class 3 stores.

TABLE 10.—AVERAGE GROCERY STORE PRICES, EXPRESSED IN AMOUNTS
Average of Prices Quoted by Chain and Independent Grocery Stores on Selected Standard Items, by Commodity Groups

Commodity group	Number of items	Independent-store average price, cents (Class 1)	Chain store average price, cents			
			2–3 stores (Class 2)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	124	16.02	15.51	15.49	15 39	15 29
Bakery products	7	6.41	6 24	6 39	6 37	6.42
Beverages	14	27.62	26.80	26.94	26.62	26 85
Breakfast foods	14	13.28	12.74	12.64	12 52	12 61
Canned fruits and vegetables	11	17.41	16.98	16.90	15.99	16 11
Other canned goods	16	12.86	12.39	12.29	12.09	12.02
Condiments and salad dressings	10	21.71	21 27	21.19	20.92	21.29
Farinaceous foods	5	19.19	18 73	18.28	18.57	19.43
Other food products	22	16.07	15.42	15.59	15.60	15.22
Soaps and cleansers	18	10 88	10 38	10 58	10 44	10 24
Other nonfood products	7	15.64	15 59	14 68	16.26	14.30

If one of each of the 124 articles had been purchased from each class of stores at the average price for the items at that class of stores, the "market-basket" cost of the 124 commodities from each class of store would have been as follows:

Independent stores	$19.8675
Chains with 2–3 stores	19.2365
Chains with 7–10 stores	19.2042
Chains with 11–15 stores	19.0875
Chains with 16 stores or more	18.9545

Table 11, following the same form as Table 10, expresses the average price of all commodities included in the survey, by chain grocery store classes, in the percentage that each class is of the

independent store average prices. Similar percentages were computed for each commodity group.

The unweighted average price charged for all commodities by Class 2 grocery stores, 2 to 3 unit chains, appears, from Table 11, to be 96.82 per cent of that charged by independent grocers. For Class 4 grocery stores, 7 to 10 unit chains, this percentage was 96.69, while for Class 5 stores, 11 to 15 unit chains, it was 96.07 per cent, and for Class 6, or chains having 16 or more stores, it was 95.44 per cent on the 124 items. Thus, it is seen that on the aggregate of these items, 2 to 3 unit chain stores charged 3.18 per cent less than independent stores; 7 to 10 unit chains sold them for 3.31 per cent less; 11 to 15 unit chains sold them for 3.93 per cent less; and chains with 16 stores or more sold them for 4.56 per cent less (see Fig. 2).

TABLE 11.—AVERAGE GROCERY CHAIN PRICES AS A PERCENTAGE OF INDEPENDENT-STORE PRICES

Average of Prices Quoted by Chain and Independent Grocery Stores, Expressed as a Percentage of Average Prices of Independent Stores, by Commodity Groups

Commodity group	Independent store, average price = 100.0% (Class 1)	Chain stores			
		2–3 stores (Class 2)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	100	96.82	96.69	96.07	95.44
Bakery products	100	97.35	99.83	99.38	100.16
Beverages	100	97.03	97.54	96.38	97.21
Breakfast foods	100	95.93	95.18	94.28	94.95
Canned fruits and vegetables	100	97.53	97.07	91.84	92.53
Other canned goods	100	96.35	95.57	94.01	93.47
Condiments and salad dressings	100	97.97	97.60	96.36	98.06
Farinaceous foods	100	97.60	95.26	96.77	101.25
Other food products	100	95.96	97.01	97.08	94.71
Soaps and cleansers	100	95.40	97.24	95 96	94.12
Other nonfood products	100	99.68	93.86	103.96	91.43

Expressing these differences in prices, by using the "market-basket" illustration, the savings effected on these 124 items would be outlined as follows:

Class of chain	Saving over independent-store price		Saving over price charged by preceding class of chain	
	Amount (cents)	%	Amount (cents)	%
2–3 stores	63.24	3.18	63.24	3.18
7–10 stores	65.72	3.31	2.58	0.13
11–15 stores	78.12	3.93	13.40	0.65
16 stores and over	90.52	4.56	12.40	0.65

Final conclusions concerning price differentials between independent and chain grocery stores cannot be drawn at this point

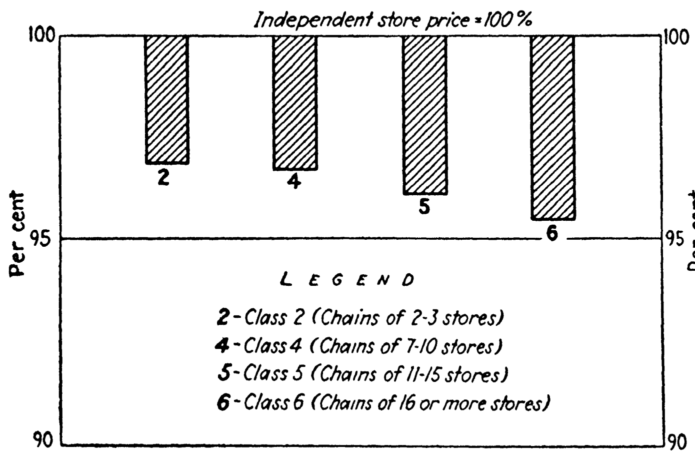

FIG. 2.—Comparison of average selling prices of chain and independent grocery stores; all commodities. There were no grocery chains in Class 3 in the state.

for a number of reasons. In the first place, only certain classes of merchandise sold by grocery stores have been included in this study, representing probably less than one-half of the average sales of the grocery stores. Fresh fruits and vegetables as well as fresh meats, eggs, and other such items have been omitted. Goods bearing private labels have also been excluded from the survey. In short, the survey included only well-known brands of products widely used and sold by both chain and independent grocers in the state.

There is reason to believe that were it possible to include the other classes of merchandise, the differences in prices charged by

chains as compared to those charged by independents would have been considerably larger. It is a well-known fact that packaged and standard branded grocery commodities bear a smaller margin of gross profit than is true of such items as fresh fruits and vegetables, and, because of that, the former does not offer so great an opportunity for price variation. Below is reproduced a quotation attributed to a chain store executive.[1]

The greatest difficulty in connection with a survey of this kind exists in connection with the comparison of other than heavily advertised products. The fact has been definitely established that the greatest advantage the chain store offers to the consuming public is in the class of merchandise which is not extensively advertised, primarily because all distributors hold down their mark-up on advertised merchandise to the lowest possible basis and many individual merchants will even attempt to undersell the chain stores on certain heavily advertised merchandise in order to make an impression upon the consumer. This they are in a position to do because the chain organization cannot cut its prices on every commodity in each of its units to meet the price cuts of a few independents who might go very low on a small number of advertised items. If different merchants cut prices on different groups of items they compel the chains to cut prices on their entire line of advertised items. The fact that this is done by certain merchants makes it necessary for them to get high profits on items on which price comparisons are not easily made by consumers.

The authors of this study further say that the chain store executive to whom the above remarks were attributed stated specifically that "the chain stores offer the consumer even greater advantages in the purchase of fresh and canned fruits and vegetables and certain other items not included in this investigation than in the purchase of national brands."

It is also a common fact that most chain stores sell private-brand merchandise of similar quality at lower prices than those charged for nationally known products. The following excerpts from the Federal Trade Commission Study on chain store private brands, pp. XVIII and XIX of the letter of submittal, serve to verify this contention:

Although the mark-up on private brands was equal to or higher than that on competing standard brands, according to a majority of the reporting chains, nevertheless private brands generally were priced

[1] Bjorklund and Palmer, *op. cit.*

lower than competing standard brands chiefly because of lower cost. Seventy-nine chains, or about one-third of the 248 reporting on their pricing policy, priced their private brands lower than competing standard brands, but this group operated 73 per cent (32,733) of the 44,853 stores operated by the 248 chains. The policy of 126 chains, or 51 per cent of those reporting, was to sell both private brands and standard brands at the same price. The remaining 43 chains, or 17 per cent of the 248 reporting, priced their private brands higher than competing standard brands, but these chains operated only 939 stores, or about 2 per cent of those operated by the 248 chains. The chains pricing private brands lower than standard brands averaged 414 stores per chain, those pricing private and standard brands the same were next with 89 stores per chain, while chains pricing private brands higher than standard brands averaged the smallest number of stores per chain, only 22.

. . . . . .

In addition to the general statements on pricing policies, reports were received on the actual selling prices, March 30, 1929, of private brands and competing standard brands which had the highest mark-up. A total of 212 usable comparative price reports on 44 different commodities was received from grocery and grocery and meat chains. If a hypothetical customer on March 30, 1929, had purchased all 424 commodities (212 under private brands and 212 under standard brands) from the grocery and grocery and meat chains reporting, his private brands would have cost him $92.22 and his competing standard brands would have cost $105.21. In other words, the private brands sold for $12.99, or 12.3 per cent, less than the standard brands. Of the total of 212 pairs of comparative price quotations, there were 173 in which the private brand was sold at a lower price than the competing standard brand item, 33 in which both were sold at the same price, and 6 in which the private brand was sold at a higher price than the standard brand.

It is, therefore, quite evident that chain store private brands offer the consumer even greater savings than on branded items carried by both chains and independent stores.

Comparison of Grocery Store Selling Prices, by Commodity Groups.—Tables 10, 11, and 12 summarize the essential data relative to chain store prices in comparison with prices charged by independent grocers, not only for all 124 items combined, but also give similar facts for each of the ten commodity groups into which the 124 items had been segregated. According to these data, chains as a whole had lower average prices than those charged by independents in seven of the ten commodity groups.

The general trend in the average prices was downward as the number of the units in the chain increased, although such trend was not so pronounced in grocery prices as in the case of drugstore items analyzed in the next chapter (see Fig. 3).

TABLE 12.—AVERAGE OF GROCERY STORE PRICE RATIOS, BY COMMODITY GROUPS

Commodity group	Independent-store price ratio = 100% (Class 1)	Chain stores			
		2–5 stores (Class 2)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	100	96.46	96.53	95.90	95.16
Bakery products	100	97.65	99.54	99.67	100.14
Beverages	100	96.69	97.57	96.60	96.59
Breakfast foods	100	95.62	94.93	94.12	94.83
Canned fruits and vegetables	100	97.03	96.97	92.12	92.10
Other canned goods	100	95.95	94.73	93 68	92.71
Condiments and salad dressings	100	97.93	98.08	96.95	98.23
Farinaceous foods	100	96.48	94.57	97.03	100.99
Other food products	100	96.16	96.66	97.09	93.65
Soaps and cleansers	100	95.75	97.20	96.05	95.40
Other nonfood products	100	97.41	95.20	98.90	94.03

Grocery chains with two to three chains in the state undersold independents in each of the ten commodity groups. The same situation obtained in connection with chains operating 7 to 10 stores. Grocery chains with 11 to 15 stores sold below independents in all but one commodity group. Even in this one group, "other nonfood products," this class of chains undersold independents in 6 out of the 7 items included therein. The largest grocery chains undersold independents in 8 of the 10 commodity groups; in one of the other two cases their prices were the same and in one, slightly above.

While chains with 7 to 10 grocery stores, inclusive, undersold independents in each of the 10 groups of items, they sold below the next smaller chains in 6 of the 10 commodity groups and somewhat above in the remaining 4, the net result being lower prices than those charged by the smaller chains when all groups of items

are considered. Chains operating from 11 to 15 grocery stores undersold the chains in the next preceding class in 7 of the 10 commodity groups. Chains with 16 grocery stores, or more, sold below those in the class immediately preceding in 4 of the 10 groups and below the smallest chains in 6 of the groups. It would thus appear that, while the price trend is not uninterrupted, it is generally in inverse relation to the number of stores in the

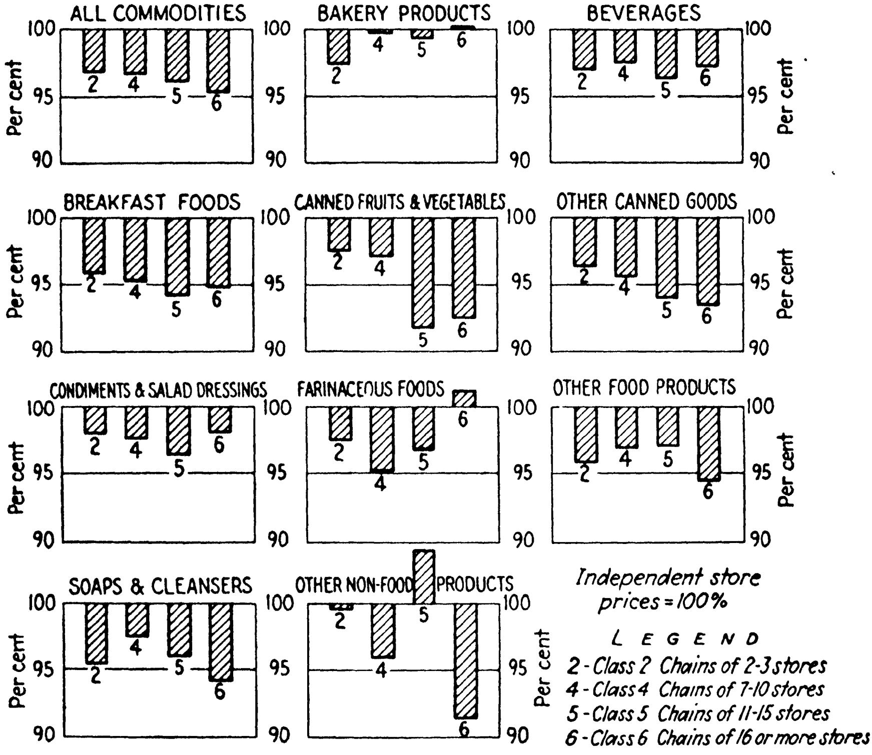

FIG. 3.—Comparison of average prices of chain and independent grocery stores by commodity groups. There were no grocery chains in Class 3.

chain. The discrepancies may almost invariably be traced to one of several factors. At times the number of quotations on an item may have been too limited. In other instances, it is due to the operation of a few high-priced, more or less exclusive chains operating largely on a quality rather than price basis. In still other instances, the geographic factor has been responsible. This latter point will be discussed in detail in pages that follow.

Grocery Store Price Comparison of Individual Items.—The Florida study revealed a vast amount of information as to the

prices on each of the 124 commodities which the various classes of stores charged their customers. An examination of the relative independent and chain store prices on the individual items disclosed the following.

1. Average prices were lower on 111 of the 124 commodities in chains of 2 and 3 stores each. On 13 items their average prices were higher. In the case of the 111 items which were cheaper in Class 2 chain grocery stores, 74, or 59.7 per cent, of the total number of items included were less than 5 per cent cheaper. An additional 33 items, or 26.6 per cent, were between 5 and 10 per cent cheaper, while only 4 items were in excess of 10 per cent cheaper. Of the items averaging a higher unit price in 2 to 3 store chains than in independents, 6 of them were less than 1 per cent higher and 4 additional items were between 1 and 2 per cent higher.

2. Passing on to Class 4 grocery stores, those having 7 to 10 units in each chain, it was found that on 109 items prices were lower in the chains, on 13 items they were higher, and on 2 items independents and 7 to 10 unit chain stores quoted the same average prices. In this class, 74 items, or 59.7 per cent, were less than 5 per cent cheaper, and only on 5 items did they undersell independents by more than 10 per cent. Of the 13 items on which the average price charged by chains with 7 to 10 grocery stores was higher than at independent stores, 4 items were less than 1 per cent higher, 8 others were from 1 to 2 per cent higher, and on but one item the average price was 3.09 per cent higher.

3. Class 5 chains, or those having 11 to 15 stores each, averaged lower prices than independents on 98 items, higher prices on 25 items, and the same price on 1 item. Although this represents a smaller *number* of items having lower prices than in the other classes of chains, the *number of items* on which this class of chains undersold *by larger percentages* increased. There were 50 items, or 40.3 per cent, of all commodities priced averaging less than 5 per cent cheaper in this class of chain stores than at independent grocery stores. The number of commodities whose average prices were more than 10 per cent below the price of independents increased to 15, or 12.10 per cent, of all items. Of these, however, 6 items were from 10 to 11 per cent cheaper, with the maximum decrease being 24.59 per cent.

The average prices of 25 items were higher in this class of chains than at independent stores. Of these, however, 10 items were less than 1 per cent higher, 5 items were from 1 to 2 per cent higher, and 6 were from 2 to 3 per cent higher. The remaining 4 items were scattered in 4 categories from 5 to 15 per cent higher than at independent stores. The increase in the number of commodities selling for higher prices is largely accounted for by 5 items in the bakery-products group.

4. In the case of class 6 chains, those having 16 or more stores each, it was found that 100 of the 124 commodities averaged lower prices than at independent stores, 21 items were higher, while 3 other items, 2 of which were bakery products, averaged the same prices in both independent stores and Class 6 chain stores.

Only 43 items or 34.68 per cent averaged less than 5 per cent cheaper. Of the 16 items on which the large grocery chains undersold independents more than 10 per cent 8 items sold from 10 to 11 per cent below, 5 items sold from 11 to 20 per cent cheaper, while 3 were more than 25 per cent cheaper.

On 18 items the average prices were higher than at independent stores, but 7 of these sold for less than 1 per cent above, and 7 others were between 1 and 2 per cent higher. On no item in this class of chain stores was a commodity found to average as much as 5 per cent above the independent-store average price.

5. From this analysis and from the detailed data shown in Appendix B it would seem that the following conclusions may be drawn:

a. Chains as a group undersold independents operating in the grocery field.

b. The underselling was not confined to a limited number of items; on the contrary it was general and universal.

c. A trend may be discerned for prices to become lower as the number of units in the chain increases. This does not apply so much to the number of commodities on which the larger chains undersold either independents or the smaller chains, as it does to the extent of the price differences expressed in terms of percentage variations. In most instances the larger chains undersold independents by a *greater amount on a larger number of items* than was true of the next smaller class of chains.

Selling Prices of Groceries, by Degree of Service.—At the beginning of the Florida study no attempt was made to collect data on the extent to which grocery stores, from which price quotations were obtained, rendered services such as credit and delivery. It was therefore decided to secure such information by means of a supplementary schedule.

In the second canvass of grocery stores, information on the degree of credit and delivery services was secured from 174 independents and 124 chain stores. Of the independent groceries, 25.8 per cent either operated strictly on a cash-and-carry basis or rendered so little credit or delivery service that they were classified in the category of cash-and-carry establishments. Ninety of the independent stores, constituting 51.6 per cent of all the stores supplying information on the subject, granted services to the extent of 11 to 50 per cent of their sales, while 32 of the stores, or 18.4 per cent, extended credit and delivery accommodations on from 51 to 80 per cent of their sales, and seven stores, or 4.2 per cent, furnished credit and delivery on more than 81 per cent of their volume of business.

Contrary to general notion, a number of the chain grocery stores granted credit to customers and a still larger number furnished delivery services. Of the 124 chain grocery stores from which information on this point was obtained, 66, or 53.2 per cent operated on a strictly cash-and-carry basis, while 46.8 per cent accommodated the trade with either credit or delivery. If the 23 stores which limited their credit or delivery services to 10 per cent of their business, or less, are to be regarded as cash-and-carry establishments, a total of 89 of the stores, representing 71.8 per cent of the 124 stores canvassed for the purpose, are in the no-service class. On the other hand, 32 of the chain grocery stores, representing 25.8 per cent of the total, extended credit accommodations or made delivery on 11 to 50 per cent of their sales, and three of the stores extended one or both of the services on more than 50 per cent of their total business.

In computing the degree of services for purposes of this tabulation, the arithmetic average of the credit and delivery service percentages as reported was obtained by adding the per cent of service in the form of credit sales to the per cent of service in the form of delivery and dividing the sum by two. This method is

similar to the one used by the Federal Trade Commission in its chain store investigation.

From the data shown in Table 13, it appears that independent grocery stores rendering credit or delivery services to the extent of 11 to 50 per cent of their business charged the same prices as stores operating on a cash-and-carry basis. Whatever the cost of making delivery or extending credit may have been, apparently such cost was not passed on to the consumer in the form of higher prices. However, independent grocers delivering from 51 to 80 per cent of their sales or extending credit on similar proportions of their business charged a somewhat higher price for their goods than cash-and-carry stores or stores with more limited service accommodations. The difference in prices of such service stores represented a relatively small amount, namely, 1.8 per cent. Independent grocery stores extending delivery and/or credit services on over 80 per cent of their sales charged their customers 2.7 per cent more than either cash-and-carry stores or stores servicing up to 50 per cent of their volume.

These differences in prices incident to the degree of service are not so significant as may appear at first blush. Such a conclusion may be drawn for several reasons. In the first place, the number of stores which charged 2.7 per cent more for their goods, presumably because they serviced over 80 per cent of their sales, was too small to have any significance. This higher price applied only to 7 of the 174 independent grocery stores. In the second place, no difference in prices may be discerned between grocery stores servicing from 1 to 50 per cent of their business and those selling on a cash-and-carry basis. If services in the form of credit or delivery are responsible for differences in prices, the 90 stores representing over one-half of all independents contributing this information should have reported higher prices than cash-and-carry stores. Third, inasmuch as practically 47 per cent of the grocery chain stores also rendered some degree of credit or delivery service, the disparity in prices between chains and independents attributable to services tends to be minimized.

In other words, it is not a question entirely of comparing prices charged by chain stores which operate strictly as cash-and-carry stores with prices charged by independents operated on a full-service basis. Both service and non-service stores may be found among chains as well as among independents, although there

is a difference in the proportions between the two types of stores. It would thus appear that very little, if any, of the differences in prices obtaining between chain and independent grocery stores need be discounted on the score of special services to customers.

As shown in Table 13, some variation in prices as between service grocery stores obtained in certain of the commodity groups. In corroboration of a previous conclusion, to the effect

TABLE 13.—COMPARISON OF PRICES AT INDEPENDENT GROCERY STORES RENDERING CREDIT AND DELIVERY SERVICE WITH INDEPENDENT GROCERY STORES OPERATING ON A CASH-AND-CARRY BASIS

Degree of service expressed as per cent of net sales

Commodity group	Cash and carry		Degree of service					
			11–50 %		51–80 %		81–100 %	
	Average price	Price ratio = 100 %	Average price	Price ratio	Average price	Price ratio	Average price	Price ratio
All commodities	16.9	100.0	17.0	100.1	17 2	101.8	17.48	102.7
Bakery products	6.4	100 0	6.4	100 0	6 4	100 0	6.4	100.0
Beverages	27.8	100 0	27.6	99 9	27 5	99 6	27 6	101.9
Breakfast foods	13.2	100 0	13 3	100 5	13 4	101 4	13 4	101.3
Canned fruits and vegetables	16 0	100 0	17 9	97 4	18 1	101 3	18 1	91 8
Other canned goods	13 2	100 0	13 2	100 5	13 6	103 0	13 3	101.5
Condiments and salad dressings	21 5	100 0	21.9	101 9	21.9	101 9	21 1	100.5
Farinaceous foods	19 0	100 0	19 0	97.2	20 4	107.4	20 1	106.4
Other food products	15 9	100 0	16 1	101 3	16 5	103 4	16 1	101.7
Soaps and cleansers	10 9	100 0	11 0	100 0	11 1	101 0	11 1	100.2
Other nonfood products	31.2	100.0	31.6	99 7	31 3	101 0	33 9	104 9

that no special significance need be attached to the higher prices charged by independent grocers servicing more than 80 per cent of the sales, it should be pointed out that at least in one group of commodities, *viz.*, canned fruits and vegetables, these higher priced stores undersold cash-and-carry groceries by 8.2 per cent. In two other commodity groups their prices were approximately the same as those charged by cash-and-carry stores. While it costs something to operate on a credit basis and to deliver goods to consumers, few of the retail grocers rendering such services

seem to pass on these extra operating expenses to consumers through higher prices.

Comparison of Grocery Store Selling Prices, by Size of Town.—For purposes of handling and presenting price data for groceries, five geographic divisions were provided. It may be argued that price data collected from stores located in different communities and in cities of various sizes, when averaged together, do not produce satisfactory results. While this contention may be invalidated through an elaborate citation of facts to the contrary, nevertheless, at least for checking purposes, an attempt was made to segregate the data both geographically and by size of cities.

Geographic Areas Used in the Grocery Store Survey.—The first division, designated A, includes the three largest cities in the state, each having a population of more than 100,000 inhabitants. In this group are covered the grocery stores located in Jacksonville, Miami, and Tampa.

Division B includes grocery stores located in the four cities of St. Petersburg, Orlando, Pensacola, and West Palm Beach, each having a population of more than 25,000 but less than 100,000. Division C comprises stores located in the northern part of the state, outside of the cities named above, whose economic characteristics differ to a considerable extent from those obtained in the other sections of the state. In this division are included grocery stores located in 26 different communities, each having a population of less than 25,000.

In Division D are included grocery stores located in the central part of the state, which may be referred to as the citrus-fruit region. As many as 26 communities, each having a population of less than 25,000, were canvassed in this part of the state. The last division, designated as Division E comprises grocery stores located in the southern part of the state and on the Atlantic Coast, as well as in the Mexican Gulf area, commonly referred to as the tourist section of the state. Data were obtained in this section from stores located in 13 communities, each having a population of less than 25,000.

In this manner, it is possible to present grocery store price figures for the three largest cities in which many of the grocery chains operate, and separately for the four medium-sized communities, as well as for the smaller communities located in each

of the three economic regions into which the state may be conveniently divided.

Average Price of Grocery Store Items, by Geographic Divisions. Detailed statistics showing average prices for each commodity by each of the five geographic divisions and for every class of stores were collected and tabulated, but cannot be presented here for lack of space. Only a summary of these facts is presented in Table 14. The principal purpose to be served by such detailed data is to shed light on the competition existing in large cities, in medium-sized communities and in the smaller towns located in three different parts of the state. It is believed, however, that a truer picture of the chain store situation on the score of prices charged by them in comparison to those charged by independent stores is obtained through totals from all stores. In the first place, the sample is larger. Secondly, the effect of a few erratic prices tends to be minimized. In the third place, peculiar conditions which may prevail in a single community are offset when placed in the proper perspective to the entire situation existing throughout the state.

On the other hand, the weakness in the price figures for grocery stores in this survey lies in the fact that an unusually large *proportion* of chain stores were canvassed in the smaller communities because so few of them are to be found there. As shown in Table 14, the tendency is for the price differential between chain stores and independents to narrow in the smaller communities. For that reason, average prices presented as totals for the entire state are of necessity conservative and an understatement of conditions prevailing in cities like Jacksonville or Tampa, where *many* chains operate in the grocery trade and where competition with independents is much keener than in the smaller communities. For these various reasons, summarized price statistics are shown in Table 14 separately by geographic areas.

An examination of the figures in Table 14 reveals the fact that the decline in prices of chains was more precipitous in the larger cities than smaller towns. Grocery chain stores located in Division A undersold independents as follows: 2 to 3 store chains, by 3.97 per cent; 7 to 10 store chains, by 4.40 per cent; 11 to 15 store chains, by 5.89 per cent; and chains of 16 stores and over, by 5.02 per cent. In the medium-sized cities grocery chain stores

TABLE 14.—SUMMARY OF AVERAGE GROCERY STORE PRICES AND PRICE RELATIVES ON ALL COMMODITIES, BY GEOGRAPHIC DIVISIONS

Type of store	Division A[a]		Division B[b]		Division C[c]		Division D[d]		Division E[e]	
	Average price	Price relatives	Average price	Price relatives	Average price	Price relatives	Average price	Price relatives	Average price	Price relatives
Independent stores	16.12	100.00	16.02	100.00	16.59	100.00	16.01	100.00	16.25	100.00
2–3 store chains	15.48	96.03	15.63	97.57	16.38	98.73	15.51	96.88	15.82	97.35
7–10 store chains	15.41	95.60	15.75	98.31	.....	......	15.65	97.75	15.82	97.35
11–15 store chains	15.17	94.11	....	......	15.62	94.15	15.70	98 06	15.89	97.78
16 and over store chains	15.31	94.98	15.37	95.94	15.93	96.02	15.41	96.25	15.50	95.38

[a] Jacksonville, Miami, and Tampa.
[b] St. Petersburg, Orlando, Pensacola, and West Palm Beach.
[c] Twenty-six towns, northern and western part of state.
[d] Twenty-six towns, central part of state.
[e] Thirteen towns, southern part of state.

undersold independents as follows: 2 to 3 store chains, by 2.43 per cent; 7 to 10 store chains, by 1.69 per cent; and chains operating 16 stores, and more, undersold independents by 4.06 per cent. In the smaller communities included in Divisions C, D, and E, the amount by which chain stores undersold independents was somewhat less. This indicates that chain stores as a group charged higher prices on groceries, in proportion to those charged by independents, in the smaller communities than they did in the larger cities.

Despite the slight differences in results obtained in the different-sized cities and in the various sections of the state, one is forced to the conclusion that the general inferences drawn hereinbefore generally apply to grocery stores of the various classes throughout the state. Furthermore, because of the *relatively* large number of chains canvassed in the smaller towns, the conclusion based upon average prices for the entire state seems to be conservative. Finally, only the larger and better managed independent grocery stores were generally included in the survey. Data could not be obtained from most of the smaller independent stores, largely because of their limited stocks. It is a matter of common knowledge that these smaller independent stores charge higher prices than the better managed grocery stores of the same class. Many of the better managed independent grocery stores have attempted to meet chain store competition through price reduction and through various other devices used by chains. Partly for this reason, it is believed that the final results obtained in this study, particularly for groceries, distinctly represent somewhat of an understatement of the differentials in prices existing between chains and independents.

The Extent to Which Chain Stores Undersell Independent Merchants and the Trend.—The study described in the preceding pages and other comparative price investigations show that there is no doubt that chain grocery stores do undersell their independent rivals, but there is considerable discrepancy in the extent to which they undersell. The first few studies made in 1929 and 1930 revealed that chains were charging probably 10 to 12 per cent less than were independent grocers for the identical merchandise. This advantage has been gradually reduced by the independents and the latest price survey (the Florida study) reveals that the chain advantage has been reduced approxi-

mately one-half in seven years. The results of representative price studies made in the past several years are shown in Table 15. They reveal a very definite shrinkage in the variation between chain and independent grocery store prices. Two of the studies, those conducted by Professors Taylor and Phillips, were repeated, and the second studies disclosed a reduction of almost 3 per cent in the chain price advantage in a four-year period.

TABLE 15.—CHAIN GROCERY STORE PRICE ADVANTAGE OVER INDEPENDENT STORES, 1929–1935[a]

Identification of study[b]	Year study was made	Chain store advantage
Taylor, Durham, N. C.	1929	13.79
Federal Trade Commission, Washington, D. C	1929	6.40
Bjorklund and Palmer, Chicago, Ill.	1930	9.32–11.39[c]
Palmer, Lexington, Ky.	1930	14.30
Phillips, central New York State	1930	12 82
Dowe, New York City	1931	8.53
Converse, Champaign-Urbana, Ill.	1931	8.40
Taylor, Durham, N. C.	1933	11.00
Phillips, central New York State	1934	10.02
Beckman, Florida	1935	3 18– 4.56[d]

[a] Independent prices = 100%.
[b] For a fuller description of the price studies, see footnote, p. 78.
[c] First figure for cash-and-carry independents, second for service independents.
[d] First figure for chains of two and three stores, second figure for chains of more than 16 stores.

This narrowing spread between chain and independent grocery store prices is probably due to a combination of two factors—increasing chain store costs and the economies secured by independent merchants through group buying.

Influence of Service on Retail Grocery Prices.—In defense of higher independent store prices it has been alleged that a portion of the price differential may be ascribed to the fact that numerous independent grocers render service. The studies that have been made to date seem to indicate that service has only a minor effect on grocery prices. Three of the four studies that have given this factor consideration are in agreement in minimizing the influence of service on retail grocery prices. The Federal Trade Commis-

sion found that the difference in prices charged by non-service independents and service independents was less than 2 per cent and even this variation was partially due to other factors.[1] Professor Palmer of the University of Chicago found that cash-and-carry independents undersold service independents only two-thirds of 1 per cent.[2] The Florida survey corroborates further the general conclusion that retail grocers rendering service charge but slightly more than those who operate on a cash-and-carry policy.

Voluntary Chain Store Prices.—There are some who maintain that voluntary chain grocers are meeting the prices charged by corporate chains. The two studies that have considered this phase of the comparative-price problem indicate that voluntary chain grocery stores undersell the regular independents by only a slight margin. The Federal Trade Commission found that prices charged by voluntary chains in the grocery field ranged from 0.9 of 1 per cent to 2.4 per cent lower than the prices charged by other independents. Phillips, in 1934, found that the voluntary chain had a price advantage of 3.63 per cent over the independent whereas the regular chain's advantage was 10.02 per cent.[3] In view of the above, it would seem that though voluntary chains have secured certain advantages for their members, they have not been able as yet or have been unwilling to match the advantages of the regular chain organizations in the matter of price.

Causes of Underselling by Chains.—No analysis of chain and independent selling prices would be complete without some reference to the reasons for the chain store's ability to undersell its local competitors. As far as the authors know, only one study has been made that has attempted to give a measured answer to this problem. The Federal Trade Commission in the course of its price studies tried to account for the differences between chain and independent store prices, and they were able to trace more than two-thirds of the differential in prices between chain and independent grocery stores in Washington, D. C., for 274 standard-

[1] Federal Trade Commission, "Chain Stores: Prices and Margins of Chain and Independent Distribution, Washington, D. C.—Grocery," p. 19, U.S. Government Printing Office, Washington, 1933.

[2] Bjorklund and Palmer, *op. cit.*

[3] Phillips, C. F., "Chain, Voluntary Chain, and Independent Grocery Store Prices, 1930 and 1934," *Journal of Business*, April, 1935, p. 145.

brand articles. They accounted for the following differences in the cost of the above mentioned items:

Difference in purchase cost in favor of chains.........	$1.2972 or 32.8%
Difference in wage cost in favor of chains............	0.8905 or 22.3%
Difference in service cost in favor of chains..........	0.1600 or 4.5%
Difference in rent cost in favor of chains.............	0.0968 or 2.5%[1]

The Federal Trade Commission price studies in other cities produced similar results. Although the evidence is by no means conclusive, it would seem that approximately one-third of the chain store price differential is accounted for by its buying advantage, and the balance may be largely attributed to lower operating costs and to other factors.

With the enactment of the Robinson-Patman Act and other legislation designed to limit chain store buying advantages, coupled with the probable unionization of retail store employees, it is very likely that the ability of chain stores to undersell in the future may be considerably curtailed.

[1] Computations based on information contained in "Prices and Margins of Chain and Independent Distributors," Federal Trade Commission, U.S. Government Printing Office, Washington, 1933.

CHAPTER VIII

SELLING PRICES IN CHAIN AND INDEPENDENT DRUGSTORES

The studies of prices in chain and independent stores that have been made to date have been almost entirely confined to the grocery business, and very little light has been cast on the problem of price differentials in other fields. It is the purpose of this chapter to remove part of the haze which envelops this question outside the grocery field. This is done by presenting the results of a careful and comprehensive price survey conducted at the time of the grocery study by one of the authors, by summarizing the results of other studies in the same field, and by interpreting the results so as to make them more vivid.

Obviously there are many fundamental differences between grocery store operations and those of other types of retail stores. As a result, a somewhat different treatment of at least certain phases of the subject may be required. Grocery store products may generally be classified as necessities while many items sold in drug- or auto-accessory stores cannot be regarded as essential to human life. Partly for this reason, groceries command a larger share of the consumer's budget. Another factor which must be given consideration is the wide spread between drug and other commodity costs and selling prices as compared to a much narrower spread between costs and retail selling prices in the grocery field. A wider range naturally provides an opportunity for greater variation in selling prices. A third factor in the situation is the difference in the unit value of groceries as compared to many other products. In the former class of merchandise, the unit value of an item is much lower than is true of drug and many shopping goods such as clothing. Fourth, the stock-turn in the grocery business is several times as rapid as in most other retail fields.

These factors, among others, militate against a treatment of the two classes of merchandise in the same fashion. For example, while average prices expressed up to a single decimal place are

regarded as adequate for drug commodities, for grocery items, where the variation in prices is smaller, the spread narrower, the stock-turn much higher, and the unit value of the item lower, average prices must be carried out to two decimal places in order to insure accuracy. Certain other differences in treatment, though relatively slight, will be discerned later in the discussion, and such differences will be explained as they occur.

The Drugstore-Price Survey.—The study of comparative retail prices charged by chain and independent drugstores was carried out along the same lines and with the same care and exactness as the grocery survey already described. The 160 commodities finally used were selected only after wholesalers and retailers had been consulted and a previous study by the Federal Trade Commission examined. The schedule was prepared with a view to securing only accurate data (see Appendix C). Because of the desire to controvert any possible question as to the scientific value of this study, 216 of the 669 drugstores in the territory covered by the survey were visited for comparative prices, thus presenting a sample involving 32.3 per cent of all drugstores.

Summary of Findings.--From the data gathered in the drugstore-price study conducted in August, 1935, in Florida, three summary price tables were prepared which are shown as Tables 16, 17, and 18.

According to the data in Table 16, the unweighted average price (though weighted by the number of quotations) for the 160 articles in independent drugstores was 49.75 cents. For chains with 2 to 3 stores the average price was 49.13 cents; for chains with 4 to 6 stores, 47.08 cents; for chains with 7 to 10 stores, 43.39 cents; for chains with 11 to 15 stores, 44.89 cents; and for chains having 16, or more, stores in Florida the average price for all items was 42.50 cents. Using the "market-basket" concept for expressing these differences in prices, it means that if a consumer were to purchase one unit of each of the 160 commodities in each of the classes of stores under survey, he would have had to pay the following amounts to each of the store classes shown below:

Independent store	$79.60
Chains with 2–3 stores	78.60
Chains with 4–6 stores	75.33
Chains with 7–10 stores	69.42
Chains with 11–15 stores	71.82
Chains with 16 stores or more	68.00

When the average price for all commodities for each class of chain stores is expressed in percentages of the average price of independent stores, as shown in Table 17 and Fig. 4, it appears that the average price charged by stores belonging to chains with 2 to 3 stores was 98.75 per cent of the average price charged by independents, and that the average prices charged by the other classes of chains, expressed as relatives of the average independent store price, were 94.63 per cent for chains with 4 to 6 stores, 87.22 per cent for chains with 7 to 10 stores, 90.23 per cent for chains with 11 to 15 stores, and 85.43 per cent for chains with 16 stores and over. Stated otherwise, the total of the prices for all

TABLE 16.—AVERAGE DRUGSTORE PRICES, EXPRESSED IN AMOUNTS
Average of Prices Quoted by Chain and Independent Drugstores, on Selected Standard Items, by Commodity Groups

Commodity group	Number of items	Independent-store average price, cents (Class 1)	Chain store average price, cents				
			2–3 stores (Class 2)	4–6 stores (Class 3)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	160	49 75	49.13	47.08	43 39	44.89	42.50
Laxatives	15	46 36	44 33	42.87	37.29	39 22	36.90
Tonics	12	98 52	96 77	90.89	84 23	86 46	83.47
Headache remedies	6	48.81	49.11	46 36	42.30	45.35	41.71
Other patent and proprietary medicines	22	51 83	51.11	48 35	43.56	45 22	43.87
Dental preparations	11	40 29	39 98	37 70	33 97	36 05	32 78
Shaving preparations	8	34 29	33 65	31 91	28 67	30 24	29 29
Soaps	9	11 78	12 09	11 42	10 05	10 91	10 20
Face creams	8	82 92	81.48	80.71	75.60	78.67	75.58
Cosmetics	18	45.13	44.89	44 83	41 93	43.51	39 92
Hair preparations	8	56 10	55.25	55 31	49 06	49 30	48.56
All other toiletries	18	45 78	45 64	43 86	42.15	42 60	40 95
Miscellaneous	25	43.11	42.95	39.99	38.22	39.14	35.75

items charged by chains with 2 to 3 stores was 1.25 per cent lower than the total of the prices for all commodities at the independent stores. Chains with 4 to 6 stores sold for 5.36 per cent less than independents; chains with 7 to 10 stores sold for 12.79 per cent less than independents; chains with 11 to 15 stores sold for 9.77 per cent less than independents; and chains with 16 stores, and over, undersold independents by 14.57 per cent.

Again using the "market-basket" concept, it means that the consumer would have been able to purchase the 160 drugstore items at the following savings from each of the chain classes shown below:

Class of chain	Saving over independent-store price		Saving over price charged by preceding class of store	
	Amount	%[a]	Amount	%[a]
2–3 stores	$ 1.00	1.26	$1.00	1.26
4–6 stores	4.27	5.36	3.27	4.16
7–10 stores	10.18	12.79	5.91	7.85
11–15 stores	7.78	9.77	2.40[b]	3.46[b]
16 stores and over	11.60	14.57	3.82	5.32

[a] The slight differences between these percentages and those shown in the text, immediately above, are due to the fact that the average prices of all commodities are expressed only to one decimal place, while the market-basket price has been determined by adding the average prices of each of the 160 commodities.

[b] Increase.

As far as drugs are concerned, these data show conclusively that in the state of Florida, chain stores sold at prices lower than those charged by independents, and that the price advantage

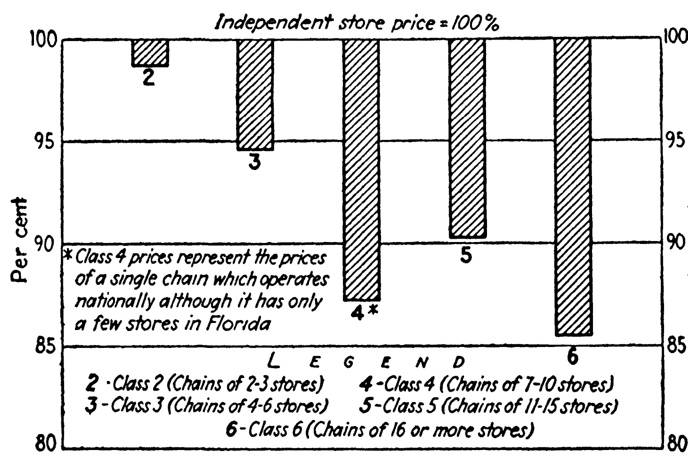

FIG. 4.—Comparison of average selling prices of chain and independent drugstores: all commodities.

given to the consumer increased as the number of store units in the chain increased. To this statement there is but one exception. There is one chain in Class 4 with 7 to 10 drugstores in

Florida which, probably because of its tremendous size nationally, undersells not only independents and classes of chains in the lower size groups but also undersells the stores in the chain immediately following, although the relationship between price advantage and the number of store units in the chain was not necessarily proportional or in direct ratio.

TABLE 17.—AVERAGE DRUGSTORE CHAIN PRICES AS A PERCENTAGE OF INDEPENDENT-STORE PRICES

Average of Prices Quoted by Chain and Independent Drugstores, Expressed as a Percentage of Average Prices of Independent Stores, by Commodity Groups

Commodity group	Independent stores, average price = 100% (Class 1)	Chain stores				
		2–3 stores (Class 2)	4–6 stores (Class 3)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	100.0	98.75	94.63	87.22	90.23	85.43
Laxatives	100.0	95.62	92.47	80.44	84.60	79.59
Tonics	100.0	98.22	92.26	85.50	87.76	84.72
Headache remedies	100.0	100.61	94.98	86.66	92.91	85.45
Other patent and proprietary medicines	100.0	98.61	93.29	84.04	87.25	84.64
Dental preparations	100.0	99.23	93.57	84.31	89.48	81.36
Shaving preparations	100.0	98.13	93.06	83 61	88.19	85.42
Soaps	100.0	102.63	96.94	85.31	92.61	86.59
Face creams	100.0	98.26	97.33	91.17	94.87	91.15
Cosmetics	100.0	99.47	99.34	92.91	96.41	88.46
Hair preparations	100.0	98.48	98.59	87.45	87.88	86.56
All other toiletries	100.0	99.69	95.81	92.07	93.05	89.45
Miscellaneous	100.0	99.63	92.76	88.66	90.79	82.93

The arithmetic average was selected for primary use in this survey for a number of reasons. As already explained in the preceding chapter, a number of alternatives were considered, but the arithmetic average was finally adjudged the least objectionable and probably the most representative method.

Comparison of Drugstore Selling Prices, by Commodity Groups.—Tables 16, 17, and 18 not only summarize the essential facts concerning chain store prices on drug articles, as compared

with independent store prices for all commodities combined, but also present the information for each of 12 commodity groups into which the 160 items had been classified. Chains as a group had lower average prices than independents in all of the 12 commodity groups (see Fig. 5). These prices descended, as the number of units in the chain increased, in 6 of the 12 groups. In only one

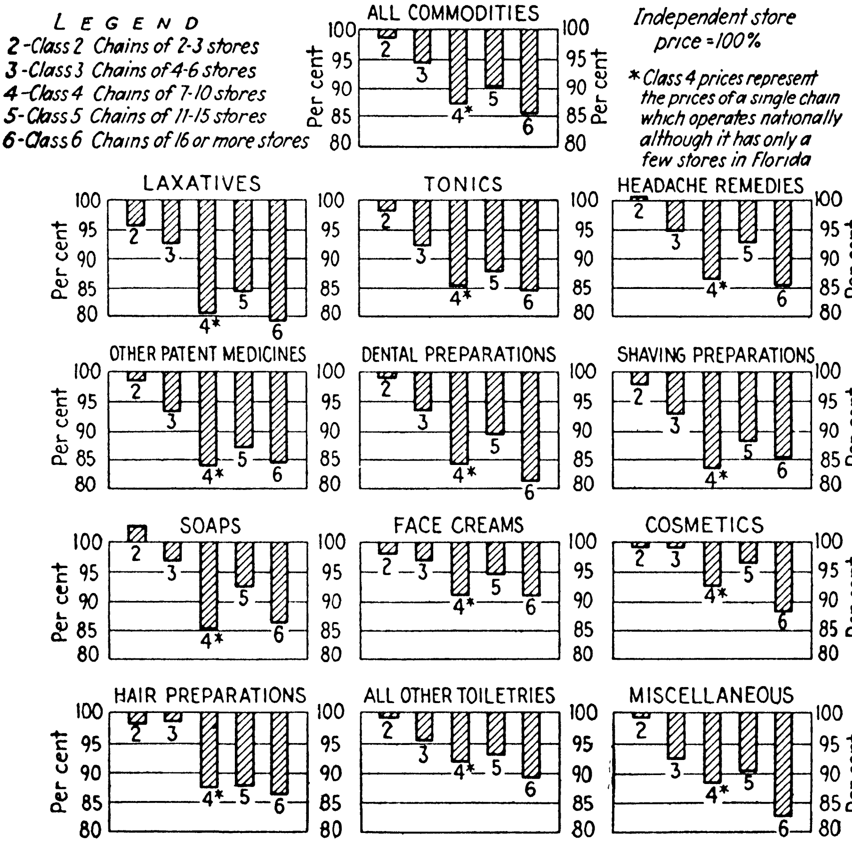

FIG. 5.—Comparison of average prices of chain and independent drugstores; by commodity groups.

of the groups, the chains operating 11 to 16 stores charged somewhat higher average prices than chains having 7 to 10 stores. It is significant that each of the classes of chains reported lower average prices than those charged by independents for each of the 12 commodity groups, with two exceptions. These exceptions are to be found in the headache remedies and the soaps groups, where the average prices charged by chains with 2 to 3 stores were slightly above those of independent stores. The

large chains, however, sold items in these groups at average prices about 14 per cent below the independents.

Chains with 2 to 3 stores showed the smallest average price differential, as compared with independent-store average prices, of any of the chain classes. Although stores in this class of chains undersold independents by 1.25 per cent for all commodities combined, in four of the commodity groups the differential was less than 1 per cent and in two groups the average price was somewhat higher. As far as all classes of chains are concerned, the greatest differential in average prices is to be found in the laxative group, the chains with 2 to 3 stores selling below independent store prices by 4.38 per cent; chains with 4 to 6 stores underselling independents by 5.53 per cent; chains with 7 to 10 stores selling below independents by 19.56 per cent; chains with 11 to 15 stores giving the consumer a price advantage of 16.4 per cent; and chains with 16 stores, or more, offering a price differential of 21.41 per cent.

Drugstore Price Comparison of Individual Items.—The Florida study revealed a vast amount of information as to the prices on each of the 160 drugstore items or commodities (for detailed data see Appendix D). An examination of the relative independent- and chain store prices on the individual items disclosed the following:

1. Chains with 2 to 3 stores were underselling independents on 106 of the 160 commodities. On 53 items their average prices were higher than, and on 1 commodity the average retail price was the same as, at independent drugstores. Of the 106 commodities on which this class of chain stores undersold independent stores, the price differential was less than 5 per cent for 100 items. On the other hand, of the 53 items for which 2 to 3 drugstore chains charged more than independents, 32 were less than 1 per cent higher, while 15 items were from 1 to 5 per cent higher, and 6 commodities were more than 5 per cent higher.

2. Chains with 4 to 6 drug stores were underselling independents on 140 commodities of the 160 studied, while on 20 items their prices were higher. On only 7 of the 140 items were the chain drugstore selling prices less than 1 per cent lower than the independent store selling price. On 45 items it was from 1 to 5 per cent lower; on 65 items average prices were from 5 to 10 per cent lower; on 21 items from 10 to 15 per cent lower; and on 2 items

the 4 to 6 store chain selling prices were more than 15 per cent lower than the independent drugstore selling prices. On 5 of the 20 commodities for which this class of chain drugstores, averaged a higher selling price than independents, the price was less than 1 per cent higher, and on 11 items the average prices were less than 5 per cent higher.

TABLE 18.—AVERAGE DRUGSTORE PRICE RATIOS, BY COMMODITY GROUPS

Commodity group	Independent-store price ratio = 100% (Class 1)	Chain stores				
		2–3 stores (Class 2)	4–6 stores (Class 3)	7–10 stores (Class 4)	11–15 stores (Class 5)	16 stores and over (Class 6)
All commodities	100.0	99.13	94.79	86.96	90 28	85 36
Laxatives	100 0	97.39	92.26	81.56	85 55	80 27
Tonics	100.0	98.36	92.22	85.58	88 04	84.84
Headache remedies	100.0	100.39	94.16	86.58	92.27	84.30
Other patent and proprietary medicines	100.0	98.64	93.41	84.57	87.78	84.37
Dental preparations	100.0	99.41	94.13	85.14	90.06	80.80
Shaving preparations	100.0	98.33	93.41	83.83	88.20	84.85
Soaps	100.0	102.38	96.38	85.64	91.50	86.20
Face creams	100.0	98.02	96.17	88.99	93.44	89.04
Cosmetics	100.0	99.43	99.44	92.45	95.45	88.37
Hair preparations	100.0	98.03	98.00	88.40	87.98	86 98
All other toiletries	100 0	99.22	95.23	90.12	90.97	86.79
Miscellaneous	100.0	100.08	93.90	87.97	91.55	86.80

3. Chains with 7 to 10 drugstores each were underselling independents on 150 items, and on only 10 commodities their prices were higher. Of the 150 items, in only two cases was the difference in price less than 1 per cent, and in 12 others it ranged from 1 to 5 per cent. On 23 commodities the price was from 5 to 10 per cent lower; on 43 from 10 to 15 per cent lower; on 51 from 15 to 20 per cent lower; on 12 from 20 to 25 per cent lower; and on the remaining 7 items it was in excess of 25 per cent lower than the average retail selling price in independent drugstores. On 9 of the 10 commodities on which this class of

chain drugstores charged higher average prices than independents, the difference was less than 2 per cent.

4. Chains with 11 to 15 drug stores were underselling independents on 139 of the 160 commodities, while on 21 items their prices were higher. On only 16 items were prices lower by less than 5 per cent. On 35 items the average price was from 5 to 10 per cent lower; on 51 items from 10 to 15 per cent lower; on 31 items from 15 to 20 per cent; and in the remaining 6 items the difference ranged from 15 to 20 per cent. Of the 21 items on which these chains charged higher prices, in 15 cases the difference was less than 4 per cent.

5. Chains with 16 stores or more were underselling independents on 150 of the 160 commodities, while on only 10 items did they charge higher prices. On only 9 commodities was the average selling price by chain drugstores lower by less than 5 per cent. On 22 items the chains sold from 5 to 10 per cent lower; on 28 items from 10 to 15 per cent lower; on 56 items from 15 to 20 per cent lower; on 26 items from 20 to 25 per cent lower; and on 9 items over 25 per cent lower. On 3 of the 10 commodities for which chains charged a higher price the increase was less than 1 per cent.

It is apparent even to the most casual reader that the underselling on the part of chains as a group was quite general. It was not confined to a limited number of commodities but pervaded almost the entire range of the 160 items studied. It is also apparent that the price differentials between the two types of stores, independents and chains, increased as the number of units in the chain increased. Whether or not this decrease in prices (or increase in differential) is in *direct ratio* to the number of stores in a chain, is not apparent from this study, but it is a positive fact that there is a pronounced trend toward greater variation in retail selling prices of drugs between independents and chain stores as the size of the chain, measured in terms of store units, increases.

In this connection attention is invited to the fact that 100, or 94.3 per cent, of the commodities sold by 2 to 3 drugstore chains at a lower price than at independents were less than 5 per cent lower. In the 4 to 6 drugstore chain class, 86, or 61.4 per cent, of the commodities sold for less than at independent stores, prices were from 5 per cent to 15 per cent lower. In the 7 to

10 unit chain drugstores, on 94, or 62.7 per cent of the commodities in which this class of chain undersold independents, prices were from 10 to 20 per cent lower. In the 11 to 15 drugstore chains, 82 items, or 59.0 per cent, of those selling for lower prices were from 10 to 20 per cent lower. Finally, in the largest size chains, those having 16, or more, drugstores each, on 60.6 per cent of the commodities which sold for less than independent-store prices the price difference was more than 15 per cent. This clearly illustrates the progressive decrease in prices as the number of units in the chain increases.

In most classes of chain drugstores the largest number of commodities sold at a higher price than in independent stores is in the group which sold for less than 1 per cent above the independent-store price. The number of chain stores selling commodities at higher prices than independents was relatively small. On the other hand, a relatively large percentage of the items were sold for less by chains than by independents. In the five chain store classes studied there were 160 commodities surveyed in each class or a total of 800 average prices at chain drugstores. Of these, 685, or 85.6 per cent, of the total average prices were lower than independent drugstore average selling prices.

Comparison of Retail Selling Prices of Service and Cash-and-carry Drugstores.—After the price data on the drug schedule had been collected, the question arose as to whether differences in the prices that may be discovered between chains and independent stores may not be accounted for, at least to some extent, by the credit and delivery services rendered to customers by independents. To throw light on this question a supplementary schedule was prepared in an attempt to secure information on the size of the store, measured in terms of net sales for the year 1934, and on the degree of credit and delivery service normally rendered. The latter two items were to be expressed in amounts, if possible, although estimates in percentage of total sales were to be accepted.

Some difficulty was experienced in securing the information called for by the supplementary schedule, partly because it entailed a second visit to the store and partly on account of the intimate information required, which in many cases necessitated examining book figures. For these reasons only 150 supplementary schedules were received for independent drugstores.

Upon receipt of this information the reporting stores were coded on the degree of service rendered. An arithmetic average of the service percentage reported in answer to the questions was obtained by adding the percentage of service in the form of credit sales to the percentage of service in the form of delivery and dividing the sum by two. This is regarded as an approved method and is not unlike the one used by the Federal Trade Commission in its chain store investigation. After this simple arithmetic average of the two services was computed, the stores were divided into two groups. In the first group were included all stores with less than 10 per cent service, which may be regarded to all intents and purposes as cash-and-carry stores. In the second group were included stores rendering services to the extent of 11 to 50 per cent of their sales. No drugstore was found to be giving service in excess of 50 per cent of its sales.

A comparison of the prices charged by independent cash-and-carry drugstores with those charged by independent service drugstores, reveals the enlightening fact that for all commodities involved the difference in prices between the two types of stores was practically negligible. Independent drugstores operating on a cash-and-carry basis reported an average price in cents of 49.97 for all the items, as against an average price of 50.05 cents for the service stores, a difference of but 0.2 per cent.

As shown in Table 19 below, there is very little difference in prices in any of the commodity groups charged by the service and cash-and-carry independents. In fact, the difference in the prices charged by the two types of stores is so slight in the drug business that it is possible that even these slight differences are due to other causes than the extension of service. It must be remembered that a certain degree of service is also rendered by drugstores of the chain type. In consequence of this fact, and because of the findings presented in Table 19, it would appear that as far as drugstores are concerned, prices are little, if any, affected by credit and delivery services rendered by the stores, even though the rendering of such services necessarily entails some expense. It simply means that this cost is not generally passed on to consumers through higher prices. Hence all the differences in prices between the various classes of chains and independents may be attributed entirely to the chain method of operation rather than to differences in service.

Table 19.—Comparison of Prices at Independent Drugstores Rendering Service with Independent Drugstores Operating on a Cash-and-carry Basis

Commodity group	Cash and carry		Service	
	Average price, cents	Price ratio = 100%	Average price, cents	Price ratio
All commodities	49.97	100.0	50.04	100.2
Laxatives	46.2	100.0	46.2	100.5
Tonics	97.5	100.0	98.6	101.2
Headache remedies	47.8	100.0	48.5	101.4
Other patent and proprietary medicine	51.6	100.0	51.8	100.5
Dental preparations	40.8	100.0	40.4	99.0
Shaving preparations	33.8	100.0	35.2	101.1
Soaps	12 0	100.0	11.9	99 6
Face creams	83.0	100.0	82.9	99.9
Cosmetics	46.5	100 0	45.6	98.5
Hair preparations	55.9	100.0	56.4	100.7
All other toiletries	48.3	100.0	47.9	99 2
Miscellaneous	42.8	100.0	43.2	114.2

Comparison of Drugstore Selling Prices, by Size of Town.—For purposes of tabulation of the price data, the schedules were divided into three divisions, geographically. Those for Division A comprising stores in the three largest cities of Florida—Jacksonville, Miami, and Tampa—were included in one group. In Division B were placed all schedules obtained from stores located in the four cities with a population of 25,000 to 100,000. In this group are the stores located in St. Petersburg, Orlando, Pensacola, and West Palm Beach. In Division C were included the reports from 44 towns with a population of 2,500 to 25,000 for which price data were collected.

From these data a few general conclusions may be drawn:

1. Small drug chains (having two to three stores) apparently compete more strongly with independents in the small towns, and consequently do not show the same proportionate increase in prices in small communities over large cities as do independents.

2. Since no chains with 11 to 15 stores were covered in Divisions B and C, no special significance need be attached to the deviation

shown for this class of stores in Division A. It probably represents the prices of a single chain operating in that area.

3. The large chains compete most strongly in the large cities and undersell the least in the small towns where competition is not so keen. This is evidenced by their greater proportionate increase in prices from those charged in the large cities.

TABLE 20.—SUMMARY OF AVERAGE DRUGSTORE PRICES AND PRICE RELATIVES, BY SIZE OF TOWN, ALL COMMODITIES

Class of store	Division[a]		Division B[b]		Division C[c]	
	Average price	Price relatives	Average price	Price relatives	Average price	Price relatives
Independent stores	48.34	100.00	48.69	100.00	51.02	100.00
2–3 store chains	47.54	98.35	47.74	98.05	50.62	99.22
4–6 store chains	42 00	86.88	49.72	102.12	46.79	91.71
7–10 store chains	43 00	88.95	42.57	87.43	44.96	88.12
11–15 store chains	44.17	91.37	......	.....	....	....
16-and-over store chains	40.55	83.89	41.66	85.56	45.88	89.92

[a] Jacksonville, Miami, and Tampa

[b] St Petersburg, Orlando, Pensacola, and West Palm Beach.

[c] Forty-four towns with a population of 2,500 to 25,000.

4. Regardless of the size of the community, the general conclusions drawn hereinbefore seem to apply to drugstores of the various classes throughout the state, but their application is particularly significant in the case of drugstores located in the three large cities, where most of the chain stores are to be found.

Results of Federal Trade Commission Drug Studies.—The only other drugstore price study that has been made to date also gives evidence that chain drugstores substantially undersell independent drugstores. The difference is more pronounced than in the case of groceries. The Commission's unweighted price figures show that the price differential in favor of the chains varied from 9.8 per cent in Cincinnati to 12.4 per cent in Memphis. This compares to an underselling by chains in the Florida study ranging from 1.26 per cent for 2 to 3 store chains to 14.57 per cent for drug chains of 16, or more, units.

SELLING PRICES OF PIECE GOODS AND FURNISHINGS IN CHAIN AND INDEPENDENT STORES

Difficulties Encountered.—In connection with the Florida survey of prices in chain and independent stores, a special effort was made to secure price information for other lines of merchandise in addition to drugs and groceries. A number of experts in their respective lines of business were brought together. Complete specifications were drawn with great care. Experiments were conducted in the field, but much of this endeavor proved futile, because many lines of merchandise do not lend themselves to direct price comparison. Any comparison of prices that may be attempted on such goods is subject to just criticism and produces but the wildest of approximations.

To illustrate, three men were called in who have had many years of experience in the retailing of shoes, as traveling representatives of leading shoe manufacturers selling shoes to the retail trade, and in factory production. These men were selected because of their thorough and unusual knowledge of the raw materials and workmanship embodied in the finished product. Elaborate and detailed specifications were prepared, but the project of securing price comparisons on shoes had to be abandoned, after considerable field experimentation. It was found, for example, that even an expert could not determine the exact quality of some of the raw materials used without actually dissecting the shoe. Whether real leather was used for the layer next to the outer sole throughout the shoe, or only on the outside with some other padding for the remainder of the sole, cannot be determined by a superficial examination of the finished product. Assuming that the quality and quantity of the materials entering the product could be definitely ascertained, there is still the problem of workmanship. In the making of a shoe there may be over 200 distinct operations, most of which may vary considerably in quality. To attempt to determine the exact quality of each of these operations, in order to insure accuracy in pricing results, is not only most difficult, if not impossible, but far from feasible on economic grounds or from the standpoint of time.

In addition to the complications outlined above, there is the matter of brands. It was found that few stores in any one community handle exactly the same brand of shoe or carry, at any

given time, the same number of a given brand. When branded, shoes are generally distributed on an exclusive agency basis, which means that, unless the community is very large, no two stores would handle the same brand. Even though a shoe is made by the same manufacturer and of exactly the same materials and workmanship, it is a different product when differently branded. For this reason a shoe manufacturer often sells the same product under several brand names. This practice attests to the impossibility of making direct price comparisons on two products designated by different brands or trade names, even though they be otherwise identical. The important point is that in the mind of the consumer the products are not the same; hence one may be preferred over the other, regardless of differences or agreement in price.

A still further complication arises out of the style element, which either adds to, or subtracts from, the salability of a given shoe. In women's shoes, the type or position of the buckle, or some other apparently trifling matter, may be the decisive factor in choosing the product. Even in men's shoes, the style element is of some significance. For these various reasons, all effort to make price comparisons on shoes was abandoned, but only after conclusive evidence was obtained concerning the impracticability of the plan.

Similar problems, of an almost insurmountable nature, were faced in connection with other lines of merchandise. Men's clothing, for example, differs not only in weight, quality, and style of fabric, but also in workmanship, brand, cut, and any of a number of tangible and intangible factors not to be encountered in the sale of standardized and branded grocery or drug articles.

Consequently, the field was searched far and wide in order to discover other items of merchandise, besides groceries and drugs, on which worth-while and reliable price data could be collected, particularly in lines of business in which chain stores operated in the state of Florida. No doubt price comparisons could have been made on certain items in the hardware field, but inasmuch as no hardware chain stores are known to be in Florida an inquiry into hardware items was beyond the scope of the survey. It was finally decided to select as many items as possible for this purpose from two distinctive and unrelated fields, covering dry goods and furnishings in one and automobile accessories in the other.

Piece goods and furnishings are normally handled in a number of different kinds of stores. They are part of the stocks of department stores, dry goods stores, variety stores, and other specialty shops akin to dry goods stores. Since all of these stores handle the items that were selected for study, they were all included in the comparison of prices as between independently operated establishments and those belonging to chains.

Selection of Commodities for Pricing.—The bulk of the merchandise handled by department stores is not subject to direct price comparison. Most of the goods fall in the shopping category, *i.e.*, they are bought only after comparison on the part of the consumer for quality, style, and price, usually in two or more stores. Even this comparison is more in the nature of judging since there is not normally any way for the consumer to determine accurately differences in quality and style, and, hence, differences in price. Specialty items, as certain electrical devices, such as vacuum cleaners, refrigerators, radios, and the like, are usually sold by brand and on an exclusive agency basis, so that but a single store in the community, or very few at best, handle the same product. Inasmuch as a comparison of prices between chains and independents demands that the same merchandise be handled by both types of stores located in the same community, as an evidence of direct price competition, no prices were secured on items that are exclusively distributed. These and other considerations narrowed down the selection to a limited number of commodities, comprising certain highly standardized items of piece goods, house furnishings, hosiery, shirts, men's underwear, and work clothing. All of the items chosen were described as to size, grade, color, and, wherever possible, also by brand name.

Summary of Findings.—Many of the 96 items of piece goods and furnishings for which price data were collected were finally discarded in the editing process. The most common reasons for the elimination of items from the tabulations were: too few quotations or no quotations at all, important differences in brand discovered during the canvass, lack of standardization, and inadequate specifications. As a consequence, only 32 items were actually tabulated.

The information on piece goods and furnishings was obtained from 25 department stores, 40 variety stores, and 52 dry goods stores, but for tabulation purposes data were used for a smaller

TABLE 21.—AVERAGE PRICES OF CHAIN AND INDEPENDENT STORES ON SELECTED ITEMS OF PIECE GOODS AND FURNISHINGS

Commodity	Size	Grade	Average prices, cents					
			Independents (class 1)	2–3 store chains (class 2)	4–6 store chains (class 3)	7–10 store chains (class 4)	11–15 store chains (class 5)	16 and over store chains (class 6)
All commodities			38.35	37.16	34.38	34.99	31.52	32.05
Pillowcases	42″ × 36″	36″	16.4	17.7	15.0	14.3	14.5	15.0
Pillowcases	42″ × 36″	42″ sheeting	26.8	26.6	26.7	27.0	22.9	21.7
Sheets	81″ × 90″		100.5	92.0	100.8	99.8	84.0	88.5
Sheets	81″ × 99″		117.1	113.4	104.7	106.4	84.0	95.0
Muslin	38/39	56 × 60 count	11.6	10.0	9.0	12.5	9.3	10.0
Muslin	36″ wide	56 × 60 count	10.7	11.0	9.3	10.3	9.6	10.0
Muslin	36″ wide	64 × 60 count	13.1	13.8	15.0	12.0	11.4	10.0
Prints (percale)	36″ wide	60 × 48 count	11.8	13.3	10.0	10.3	10.0	10.3
Prints (percale)	36″ wide	64 × 60 count	14.6	17.0	13.8	15.0	12.5	12.8
Prints (percale)	36″ wide	68 × 72 count	17.3	17.0	15.0	19.0	14.6	15.2
Prints (percale)	38″ wide	80 × 80 count	22.4	22.8	20.5	19.0	17.8	17.8
Broadcloth	36″ wide	Com. dye	21.4	24.0	17.5	12.0	15.4	13.8
Broadcloth	36″ wide	Fast dye	28.6	30.5	21.0	20.2	24.0	15.0
Crepe (all silk, flat)	39″ wide		56.9	56.5	52.3	59.0	49.5	49.0
Towel (Turkish)	18″ × 36″	Single thread	13.5	19.0	10.0	10.0	10.3	10.7
Towel (Turkish)	20″ × 40″	Double thread	25.5	31.0	30.0	19.0	17.6	19.5
Towel (Turkish)	22″ × 44″	Double thread	31.7	34.7	31.3	24.3	23.9	23.8
Table oilcloth	46″ wide		28.0	28.3	28.3	26.8	26.0	27.2
Upholstery cloth	36″ wide		25.4	29.0	18.3	19.0	19.1	16.7
Men's hosiery		176 needle rayon	17.2	17.0	16.8	17.0	15.0	15.0
Ladies' hosiery		260 needle rayon	25.4	20.0	21.7	22.0	21.2	21.3
Ladies' hosiery		300 needle rayon	32.5	25.0	25.0	31.0	26.0	24.2
Ladies' hosiery		300 needle all silk	44.4	29.0	34.0	39.0	33.8	39.0
Ladies' hosiery		full fashioned	67.4	59.0	49.5	69.4	51.7	53.9
Boys' dress shirts (broadcloth)		80 × 60 vat dye	67.8	52.7	55.4	52.8	50.9	51.6
Men's dress shirts (broadcloth)		80 × 60 vat dye	71.2	74.0	71.0	60.5	60.8	69.0
Men's dress shirts (broadcloth)		100 × 60 vat dye	95.5	96.0	92.3	87.5	82.3	87.4
Men's dress shirts (broadcloth)		112 × 60 vat dye	116.9	125.0	100.0	110.7	98.0	94.5
Men's underwear, shorts (percale)		60 × 48 full cut	17.1	12.5	15.0	16.6	16.5	15.0
Men's underwear, shorts (broadcloth)		80 × 60 full cut	24.0	23.7	23.0	23.5	24.6	22.1
Men's underwear shorts (broadcloth)		80 × 60 govt std.	27.3	25.0	23.0	28.3	28.2	26.1
Men's athletic undershirts		2 × 2 swiss rib	27.5	25.0	25.0	25.4	23.3	25.0

number of stores, since some of the stores failed to quote prices on identical items. A total of 1,818 quotations was obtained from the stores included in the tabulations. Of this number approximately 46 per cent were secured from chain stores and 54 per cent from independently owned stores.

As shown in Table 21, the unweighted average price for all of the 32 commodities in independent stores was 38.35 cents. For chains with 2 to 3 stores the average price was 37.16 cents; for chains with 4 to 6 stores, 34.38 cents; for chains with 7 to 10 stores, 34.99 cents; for chains with 11 to 15 stores, 31.52 cents; and for chains with more than 15 stores in Florida the average price was 32.05 cents.

Stated otherwise, it means that if a consumer were to purchase one unit of each of the 32 commodities in each of the classes of stores set up for purposes of this survey, he would have to pay the following amount to each of the store classes shown below:

Independent stores	$12.275
Chains with 2–3 stores	11.895
Chains with 4–6 stores	11.002
Chains with 7–10 stores	11.196
Chains with 11–15 stores	10.087
Chains with more than 15 stores	10.251

When the average price for all commodities for each class of chain stores is expressed in percentages of the average price of independent stores, as shown in Table 21, it is evident that the average price charged by stores which are part of a chain with 2 to 3 units was 90.90 per cent of the average price charged by independents. The average prices charged by the other classes of chains, expressed as relatives of the average price of independent stores, were 89.65 per cent for chains with 4 to 6 stores, 91.24 per cent for chains having 7 to 10 stores, 82.19 per cent for chains with 11 to 15 stores, and 83.57 per cent for stores belonging to chains with more than 15 units in the state. Thus the total of the prices for items charged by chains with 2 to 3 stores was 3.1 per cent lower than the total of the prices for all of the items at independent stores. Stores belonging to chains with 4 to 6 units in the state undersold independents by 10.35 per cent; stores belonging to chains operating 7 to 10 units sold for 8.76 per cent less than independents; chains with 11 to 15 units in the state undersold independents by 17.81 per cent; and the amount by

which chains with more than 15 stores in the state undersold independents was 16.43 per cent.

From these data, insufficient and fragmentary though they may be, the following inferences may be drawn:

1. On the total of the 32 commodities on which price data were collected in the state of Florida, chain stores as a group sold at prices below those charged by independents.
2. The longer chains generally undersold independents by a greater amount than the shorter chains.
3. While the tendency was for the larger chains to sell at prices below those charged by chains in the next lower classification, this tendency was not uninterrupted.
4. While the trend in prices was generally in relation to, it was not exactly in proportion to, the number of units in the chain.
5. If prices of chain stores are expressed in terms of price ratios for all commodities combined, there is, with the exception of chains with 7 to 10 units each, a progressive decline in prices as the number of units in the chain increases.
6. When examined in the light of individual commodities it appears that the longer chains not only undersold by a larger amount than the shorter chains, but they also undersold independents on a larger number of items until the longest chains in the group undersold on all of the 32 items, and the chains in the class immediately preceding undersold on all but 2 of the items.

Prices of Automobile Parts and Accessories in Chain and Independent Stores.—The greater percentage of automobile parts and accessories consists of branded merchandise which is normally distributed on an exclusive agency basis. Because of this fact, there are few stores in a single community that handle exactly the same brand of parts or accessories used for the same make of car. Considerable difficulty was therefore experienced in selecting a number of items which are sufficiently standardized and yet which are handled by both independent stores and chain stores in the same community, in order to reflect accurately the competitive position of the two types of stores.

Summary of Findings.—Price information for automobile parts and accessories was collected from 95 independent stores and from 18 stores belonging to chains, a total of 113 retail establishments. Of the 24 items for which data were collected, only

one-half of them were distinctly identified by brand and used in the tabulation. The other 12 items originally included and identified only by specification were finally discarded because of inadequacies of specifications, too limited a number of quotations, or important differences in the brands of articles priced.

A total of 807 quotations was obtained from the stores included in the tabulations. A little over 20 per cent of these quotations were secured from chain stores, the remainder being obtained from separately owned retail establishments.

From the data gathered Table 22 was prepared. This latter table shows the average prices for independent stores and for each of the classes of chain stores.

On account of the limited information which was found usable for this line of business, few conclusions can be drawn or even inferred. The information is presented merely for what it is worth. It is significant, nevertheless, to observe that even from these few statistics a trend is to be discerned, not only for chains as a group to sell below independents as a group, but also for the longer chains to undersell independents by a larger amount. The average price for the 12 commodities at independent stores was $1.123; for chains with 2 to 3 stores it was $1.004; for chains operating 4 to 6 stores, $1.118; and for chains with 7 to 10 stores, $.851. When the average prices charged by chain stores are expressed as a percentage of the independent store price, the average price charged by stores belonging to chains with 2 to 3 units was 89.4 per cent of the average price charged by independents. The average prices charged by other classes of chains, expressed as relatives of the average price at independent stores, were 99.6 per cent for chains with 4 to 6 stores and 75.8 per cent for chains with 7 to 10 units. Thus, the total of the prices for the 12 items charged by chains with 2 to 3 stores was 10.6 per cent lower than the total of the prices for the same items at independent stores. For the longest chains in the group the average price for the 12 items was 24.2 per cent below the price charged by independent stores.

With the exception of the stores operated by chains with 4 to 6 units, underselling of independents was general throughout the the list. All of the 12 items were sold by stores with 2 to 3 units at lower prices than at independents, while the longest chains undersold independents on all but 1 of the 12 items. The

TABLE 22.—CHAIN AND INDEPENDENT-STORE PRICES ON SELECTED ITEMS IN AUTOMOBILE PARTS AND ACCESSORIES
Average Price and Ratio of Average Chain Store Price to Independent-store Price (Average Price Equals Aggregate of Quotations Divided by Number of Quotations)

Item	Independent stores (class 1)		2–3 store chains (class 2)		4–8 store chains (class 3)		7–10 store chains (class 4)	
	Average price, cents	% of class 1 average	Average price, cents	% of class 1 average	Average price, cents	% of class 1 average	Average price, cents	% of class 1 average
All commodities	112 3	100.0	100.4	89.4	111.8	99.6	85.1	75.8
Spark plug, Champion, type C-4	64.5	100.0	62.3	96.6	64.0	99.2	59.0	91.5
Spark plug, A-C, type G-12	60 3	100.0	59.2	98.2	60.0	99.5	55.0	91.2
Gasket, Fitzgerald, No. 1000-DC	50 1	100.0	38 8	77.4	50.0	99.8	34.0	67.9
Gasket, No. 923, Fitzgerald	58 1	100.0	43.9	75.6	55.0	94.7	37.6	64.7
Carburetor, Simmons, No. A9510B	484 7	100 0	410 8	84.8	500.0	103.2	279.0	57.6
Oil-filter cartridge, A-C, type W-21	205 6	100.0	200 0	97.3	189.0	89.7	214.5	101.9
Gasket cement, Permatex	39.4	100.0	36.0	91.4	38.8	98.5	27.0	68.5
Liquid solder, Warner's	60.1	100.0	57.0	94.8	50.0	83.2	41.7	69.4
Polish, DuPont's, No. 7	72.8	100 0	58 4	80.2	75.0	103.0	59.0	81.0
Polish, Ken-nite	71.2	100 0	67.0	94.1	75.0	105.3	59.0	82.9
Top dressing, DuPont's, No 7	77.7	100.0	75.2	96 8	85.0	109.4	67.0	86 2
Brake fluid, Hydraulic Wagner Lockheed	103.2	100.0	96.3	93.3	100 0	96.9	88.8	86.0

amount, however, by which the longest chains undersold was considerably greater than that recorded for the shorter chains.

Summary of Chain and Independent-store Prices.—From the data presented and analyzed in the present and the preceding chapters there can be little doubt but that chain stores substantially undersell their independent competitors. In every line of trade that has been studied the chains enjoy a price differential that increases, though not in exact proportion, with the number of units operated. Not only do the longer chains offer the lowest prices but the price differential is somewhat proportional to the size of the margin. Businesses with a relatively small margin afford less opportunity for reducing consumer prices. Another significant factor is that the independent merchants are apparently finding ways and means to cut down the chain price differential. The earlier studies revealed consistently wider price differences than the more recent ones.

One very important question related to comparative prices is that which concerns the ability of chain stores to pass on to consumers all or a portion of the special taxes that have been levied on them. Do chain stores undersell competitors to the extent that they may include a sizable portion of the chain store taxes in the prices charged to consumers without materially injuring their competitive position? From the evidence presented in the preceding pages it would seem that in most businesses they can do this. From the consumer's viewpoint it might not be the most suitable method of meeting the situation, but the chain store price advantage, with but few exceptions, appears to be sufficient so that any increase in prices which is necessary, because of existing chain license taxes, may be made without a marked competitive repercussion and without confiscating the property of chains, unless, of course, a substantial increase in such taxes is forthcoming.

CHAPTER IX

CHAIN STORE COSTS AND PROFITS

In preceding chapters it was shown that from 25 to 30 per cent of the nation's retail trading is done at chain stores, the percentage varying largely with the definition adopted. Naturally, it should be of considerable interest and import to know what becomes of each dollar spent in such stores. An analysis of this phase of the subject is the burden of the present chapter.

Each dollar that a chain store receives in exchange for its goods and services is composed of three elements: (1) the cost of the merchandise itself as purchased from the manufacturer, producer, or middleman; (2) the chain's cost of doing business; and (3) the net profit. For most chain stores the largest slice of the consumer's dollar is required to cover the cost of merchandise, but since that important factor has been discussed elsewhere at considerable length (for example, see Chap. IV on buying advantages) it will not be further considered at this point. It is on the remainder, or the gross margin, consisting of operating expenses and net profits, that attention is focused in the following pages.

The term cost or expense of doing business is subject to various definitions, but the concept that forms the basis of the present discussion is essentially the bookkeeping concept. While it is, in a sense, a superficial concept of cost, it is an eminently practical and useful one for both business men and economists. According to this meaning, cost would include the money expenditures incurred by the chain organization in performing its marketing functions, such as buying, selling, storage, delivery to the stores, and store supervision.

Importance of Knowing Chain Store Costs.—The expense of bridging the gap between producer and consumer determines not only the ability of a merchandising institution to pay dividends but also the ability to serve the consumer effectively. Therefore, relative cost of doing business is a measure of social usefulness and the chain store champions have found it an exceedingly effective

argument in combating charges hurled at them of being anti-social. Chains claim that they are doing for distribution what large scale production has done for manufacturing. On the other hand, the alleged fact that chains are able to operate at a lower cost adds fuel to the fire built by opponents in combating the so-called chain store evil. Thus it is asserted that chain stores should be taxed heavily since they are able to stand it, because of their relatively greater operating efficiency, and since it will prevent them from driving independents completely out of business by the same efficiency. Regardless of one's attitude toward chains, it is important to know just how efficient chain stores really are. It is only by means of a study of relative costs that this important criterion can be at least partially evaluated.

Another reason for obtaining a knowledge of costs is that expense is a vitally important factor in price determination. What the consumer must pay for merchandise is largely dependent on the three elements previously mentioned, and, of the three, retail institutions probably retain more control over operating expense than on the others. It was shown in the two preceding chapters that chain stores consistently undersell independent merchants, but what makes that underselling possible was but partially explained. A study of relative costs should throw some light on perhaps the most significant of the factors influencing prices charged the consumer.

A third reason for studying costs is to determine trends in chain store expenses. Are the operating costs of chain stores tending to increase or decrease? What influence does size have on these expenses? An answer to this latter question also has a direct bearing on the rationality of the laws which place chains in different tax brackets based on size as reflected by the number of units. In order that chain stores may be viewed in the proper perspective, it is essential that ample consideration be given to the subject of comparative costs.

Defects in Available Cost Data.—Unfortunately, retail costs are difficult to measure quantitatively for comparative purposes. It is a relatively simple matter to determine with some degree of accuracy the costs of a particular retail store but to obtain accurate cost figures for a large enough number of stores so as to have at least a representative sample, is an entirely different matter.

Several factors complicate the use of chain store cost data for comparative purposes. First, chains engage in different kinds of business, and expense figures, to be of value for such purposes, must include only data from stores selling essentially the same products, *i.e.*, stores in the same line of business. To compare operating costs of grocery chains with those dealing in drugs is analogous to comparing apples with potatoes. This is a gross error of which many analysts of chain store costs must be declared guilty. Unfortunately, it is more difficult to discover such an error when operating costs for all chains are compared with operating costs of all independents, despite the fact that chains concentrate in lines which usually have low costs of doing business. Even the Bureau of the Census has fallen into this error, which makes those phases of its reports on "Retail Chains," "Retail Operating Expenses," and "Types of Operation," which attempt to compare chain store costs of doing business with those of independents, almost valueless. That the two items are altogether incomparable and the results misleading should be obvious even to the uninitiated.

Although of less significance, nevertheless comparisons should be made of expenses incurred by stores not only in the same line of business but operating in substantially the same manner. Some stores are self-service, some grant credit, and others render delivery service. Cost figures that do not take these factors into account are bound to admit an element of error. In the case of chain grocery stores it is generally assumed that they all conduct essentially the same kind of business, yet many individual units are essentially supermarkets, and, while the majority engage in a cash-and-carry business, many food chains in the metropolitan areas render some degree of credit or delivery service.

A third factor that makes cost comparisons difficult is that such costs vary with the size of the chain. This pertains especially to those chains that engage in wholesale as well as retail activities. The larger chains are more apt to operate chain store warehouses and to do their own wholesaling than the smaller organizations. That being the case, one would expect the costs reported by the larger chains to be relatively greater than those reported by the small ones, unless the figures are segregated for the retail units. Unless allowances are made for such conditions, entirely wrong conclusions may be drawn. For example, in the

Federal Trade Commission Investigation allowance was not made for wholesaling costs and the Commission drew the following conclusion:

> The tendency for operating expenses to increase with increases in the size of the chain is especially noticeable in the grocery group where the percentage of operating expenses to sales rises, with some irregularities, from 13.05% in the 2 to 5 store group to 18.77% in the over 1,000 stores group.[1]

It is only natural to expect the expenses of a chain organization doing both wholesaling and retailing to be higher than one which engages merely in retailing. Yet from the analysis presented by the Commission it would appear that the larger chains are less efficient than their smaller competitors.

Many data are available on chain store costs, but few of them can be used for comparative purposes. The most comprehensive statistics are those assembled by the Bureau of the Census for 1929, 1933, and 1935. In the 1929 enumeration the costs of operating chain stores were gathered and separated for the retail and wholesale divisions of the business, but in 1933 and 1935, chain store warehouse costs were apparently not separated so that comparison for the three Censuses must make allowances for this situation. The Federal Trade Commission conducted a comprehensive study and gathered statistics for the years 1913, 1919, 1922, 1925, 1927, 1928, 1929, and 1930 from 1,337 different chain store organizations. Few agencies outside the Federal Government have assembled cost facts relating to chain stores. The Bureau of Business Research of Harvard University, however, published several noteworthy studies on marketing costs of several groups of chain stores in various lines of business.

The available data on chain store costs, while excellent from some points of view, are hardly adequate for comparative purposes. As will be shown in the following pages, the authors have felt it necessary to make a number of arbitrary calculations to obtain a truer picture of chain store costs than depicted by the data heretofore published.

The determination of costs of doing business for independent merchants is beset with many of the obstacles that obstruct the

[1] Federal Trade Commission, "Chain Stores—Sales, Costs and Profits of Retail Chains," p. 53, U.S. Government Printing Office, 1932.

accurate determination of chain store costs. Many merchants sell several lines of goods, the sizes of independent stores vary greatly, and some purchase considerable quantities of merchandise direct from producers. All these factors complicate cost determination for comparative purposes. For example, the 1935 Census of Distribution revealed that 44.5 per cent of the independent stores in the United States had annual sales of less than $5,000 and 31.3 per cent of all independent stores reported annual sales under $3,000. It is believed that many of these establishments are not stores operating on a full-time basis, or they are operated as secondary endeavors by their owners with the principal income being derived from other occupations. For these reasons one may even question the inclusion of such establishments among the totals for retail stores. Naturally, statistics gathered from establishments of that kind are hardly comparable with data secured from chain stores whose average sales are more than 10 times as great.

In comparing the costs of marketing through the independent and the chain store channels of distribution, it is necessary to add wholesale costs to the independent retail store expenses. Since some purchases by retailers are made from full-service wholesalers, some from commission men, some from cash-and-carry wholesalers, as well as from many other sources, it becomes extremely difficult to obtain an accurate cost figure for the distribution of goods through independent merchants. Approximations must therefore be resorted to which are not altogether satisfactory.

Several sources of cost data for independent merchants are available, the most comprehensive being the census studies. But this material lacks adequate data on the very significant item of proprietors' wages or salaries. Some arbitrary method of calculating this vitally important cost must be made in order to secure a total-cost figure. For small selected groups of independent stores a number of excellent sources are available. Dun & Bradstreet's "Retail Survey" is especially valuable in this connection. Other sources include the Harvard University Bureau of Business Research, the National Cash Register Company, a few trade associations and some trade periodicals. In the data which follow the authors have found it necessary to make a number of arbitrary calculations which are fully explained in the appropriate places.

Chain Store Costs.—To determine chain store expenses is a very difficult task, as was shown in the preceding paragraphs. Most of the cost studies made to date fail to separate retail store expenses from chain store warehouse expense. Therefore the resultant cost figure is a combination of retail expenses plus *some* wholesale costs, since not all of the chains operate warehouses even in lines of trade where warehouses are common. It is a hybrid cost—not a retail or a retail-wholesale cost figure. However, costs of that nature do serve a useful purpose in showing the approximate relative expenses incurred in conducting different types of chain stores and also in disclosing trends so long as the data are taken merely as rough approximations. Table 23 shows the operating expenses of various kinds of chain stores for the years 1929, 1933, and 1935.

TABLE 23.—CHAIN STORE OPERATING COSTS, BY KIND OF BUSINESS, 1929, 1933, 1935

Kind of business	% of consumer's dollar		
	1929	1933	1935
Drug	28.8	28.0	26 5
Grocery, and grocery and meats	16.0	18.5	16.8
Shoe	31 9	31.8	29 5
Variety	25 2	29 0	27 2
Filling station	23.8[a]	32 4[a]	29 2[a]
Furniture	37.9[b]	42.0	36.3
Hardware	26.9[b]	29.7	21.9
Women's ready-to-wear	29.9[b]	30.6	28 8
Men's clothing and furnishing	31 8[b]	35 4	30.8

Source. Computed from data published by the Bureau of the Census.

[a] Does not include the cost of operating bulk-tank stations which is the wholesale part of the business

[b] Does not include costs of operating chain store warehouses.

The cost of operating different types of stores varies considerably. For example, chain furniture stores take relatively more than twice as much of the consumer's dollar to cover their operating expenses as do chain grocery stores. It does not follow necessarily that the latter are more than twice as efficient, since it is naturally much more difficult and costly to retail furniture than groceries.

When subjected to interpretative analysis, the cost data for the chain stores reveal many significant facts. For example, a comparison of expense ratios for 1929 and 1935 with those for 1933 discloses the fact that although chain stores were adversely affected by the depression, they fared better than most other types of industry. While costs rose during 1933, the increases were not great and, as will be shown later in this chapter, profits were made by practically every class of chain stores during the depression years. An explanation for this stability lies in the fact that chain stores are predominantly engaged in marketing low-priced convenience merchandise, and sales volume in this type of goods during depression periods suffers less than in other types of merchandise.

It has been frequently intimated that chain store costs are gradually rising and thereby tend to reduce their competitive advantage. The data shown in Table 23 appear to discredit any such conclusion. Expenses did increase in 1933 over 1929, but in all the nine kinds of business under consideration the 1935 costs were lower than in 1933, and in at least six out of the nine lines of business 1935 costs were lower than those incurred in 1929. This tends to show that chain stores as a class are at least holding their own in keeping down distribution costs.

Comparison of Chain and Independent-store Expenses.—A question of cardinal importance to the chain store problem is the relative efficiency of chain and independent stores, and it is only through a careful study of the respective operating costs and functions of the two systems of distribution that needed light can be thrown on this controversial issue. The paucity of data on this point is indeed appalling. While many statistics on costs have been gathered, few of them can be used for comparison. This is a rather sad commentary on the quality of research in this field and points to the need for gathering perhaps fewer figures, but more meaningful ones, and on a comparable basis.

Because many chain organizations normally perform their own wholesaling functions, usually through the maintenance of chain store warehouses, while independent retailers buy a considerable portion of their goods from independent wholesalers, it is necessary to compare the gross margins and operating expenses of chain stores (including chain store warehouses), on the one hand, with gross margins and operating expenses of independent stores

plus independent wholesalers on the other (see Table 24). The data in this table are extremely incomplete because recent figures relating to costs and profits are difficult to obtain for other than individual chains. Statistics on scattered individual companies are available but they are not necessarily representative, and many of them include the costs of manufacturing and the performance of other non-comparable functions.

It is significant that chains appear to be a more economical method of distribution than the independent wholesaler-retailer channel for most kinds of business. In the case of grocery products the gross margin for corporate chains is 18.5 per cent as compared to 28.7 per cent for the independent merchant-wholesaler method, a difference of 10.2 per cent in favor of the former. These figures tend to distort actual conditions, however, and certain allowances must be made to reduce or correct the distortion. First, the gross margin figure for chains should be raised by 1.1 per cent to a total of 19.6 per cent to take into account the fact that only 69.5 per cent of the merchandise billed through chain store warehouses is actually handled by them.[1] On the other hand, the expenses for the wholesaler-independent-retailer method of distribution should be reduced possibly 3 or 4 per cent to allow for the purchases that are made by the independent retailers direct from manufacturers or through limited-function middlemen whose costs are less than those of full-service wholesalers. Even considering these allowances the chain system has a cost advantage of 5 or 6 per cent in the distribution of food products. This figure corresponds rather closely to the actual difference in prices to consumers shown in Chap. VII.[2]

A more striking cost advantage for the chain stores is shown for most of the other lines of business. In the merchandising of drugs the apparent difference in gross margins is 16.5 per cent in favor of the chains. This figure, however, should be reduced to allow for the considerable quantity of direct purchases made by independent drugstores. When this factor is considered, it is

[1] Beckman, T. N., and Engle, N. H., "Wholesaling Principles and Practice," p. 494, Ronald Press Company, New York, 1937.

[2] If the independent stores whose annual sales volume per store is less than $10,000 were eliminated from consideration (and a very good case could be made for eliminating them), then even a smaller cost differential would result. As a matter of fact, in all studies other than the ones by the Census no independent stores of such small size are included.

TABLE 24.—EXPENSES, NET PROFITS, AND GROSS MARGINS OF INDEPENDENT WHOLESALER-RETAILER CHANNEL AND OF CHAIN STORE CHANNEL OF DISTRIBUTION
Expressed as a percentage of net sales

Kind of business	Independent channel							Chain store channel		
	Retailers			Wholesalers (on net retail sales)			Gross margin	Ex-pense[e]	Prof-it[f]	Gross margin
	Ex-pense[a]	Profit[b]	Gross margin	Ex-pense[c]	Profit[d]	Gross margin				
Grocery, and grocery and meats	17.6	1.6	19.2	8.5	1.00	9.5	28.7	16.8	1.7	18.5
Drugs	33.2	2 3	35.5	10.0	2.00	12.0	47.5	26.5	4.5	31.0
Variety	29.7	5.2	34.9	....	....	....	....	27.2	7.8	35.0
Shoes	35.8	3.3	39.1	....	....	....	....	29.5	4 4	33.9
Women's ready-to-wear	36.8	0.9	37.7	....	....	....	....	28.8	4.8[g]	33.6
Filling stations	24.8	2.0	26.8	..	....	...	....	29.2		
Furniture	39.2	5.9	45.1	...	....	..	....	36.3		
Men's wear	35.6	3.2	38 8	.		.	...	30.8		

[a] See Appendix E for a more detailed explanation of independent-store costs.
[b] Percentage profit taken from Dun and Bradstreet, "Retail Survey, 1936."
[c] Computed from data in Census of Business: 1935, Wholesale Distribution, Vol. I, U.S Department of Commerce, June, 1937.
[d] These are estimates which the authors feel represent actual profit.
[e] See Table 23.
[f] See Table 28. These profit figures are understated as Federal income taxes were already deducted.
[g] Profit computed from a 26.8 per cent sample.

doubtful if the actual differential reaches 10 per cent and it may even be less. This wide variation in expenses is due in no small measure to the fact that chain drugstores had average net sales of $85,000 per store as contrasted to the sales of only slightly more than $17,000 for independent drugstores.

For the other lines of trade shown in Table 24, wholesale margins were not considered, since the majority of these stores purchase direct from manufacturers. The relative marketing costs for the lines shown disclose a consistent differential in favor of chains except for filling stations. Here the independents appear to be able to operate with expenses 4.4 per cent below their chain competitors. This fact may partially explain the movement now underway for the widespread withdrawal of the major oil companies from the retail distribution of petroleum products.

The independent variety and furniture store operators have managed to keep their costs in close proximity to those of their larger rivals. In neither trade do their expenses exceed the chain store figures by as much as 3 per cent. Local variety stores, however, find themselves at a prohibitive purchasing disadvantage and, indeed, they enjoy but a very small fraction of the business. Chain apparel stores merchandise their goods at lower costs than do independents, and the differential appears to vary from 4 to 6 per cent.

Although comparative data reveal that chain stores have a general cost advantage, it must not be assumed that all independent merchants find themselves in an inferior cost position. In individual cases costs may actually be less for independent retailers than for their chain rivals. Operating results for selected grocery stores were recently published showing average retail costs but 13.3 per cent for 1934.[1] This figure is even lower than that attained by some of the leading grocery chains.

Effect of Size on Chain Store Costs.—Whether chain store merchandising is a business of decreasing costs is a vitally important consideration at the present time. Most of the so-called "discriminatory" taxes levied on chains are based on that assumption, and several other types of chain store legislation have given much weight to that premise. The data on this salient factor, though highly desirable, are very fragmentary. In the majority

[1] DIPMAN, CARL W., "Average Operating Statement of 24 Selected Grocery Stores—1934." *The Progressive Grocer*, August, 1935.

of cases, no data are presented by size of chain. Even where the data are so analyzed, different bases and standards are used. To illustrate, the data published on chain stores by the Harvard Bureau of Business Research are analyzed by size of chain based on sales volume rather than the number of stores in the organization. Moreover, it would appear that none or few of the real small chains are included in the figures. Thus, from those studies

TABLE 25.—RETAIL CHAIN STORE OPERATING EXPENSES, BY SIZE OF CHAIN, 1929[a]

Expressed as a percentage of net sales

Kind of business	Total, all chains	Less than 6 units	6–10 units	11–25 units	26–50 units	51–100 units	101–500 units	501 units, and over
Drug	27 64	26.52	27.4	27.36	26.14	25.45	28.51[b]	
Groceries and meats	14 31	.....	.....	16 42[f]	17.40	17.40	14.99[g]	13.82[h]
Shoes (women)	29.87	29 87	32.17	30 20	33.58	28.99	31.04[b]	
Variety	25.15	23.16	22.19	26 35	30.37	27.70	24.82[b]	
Filling station	23.77	21.71	22.93	21 32	24 58	25.32	30.50	22 00
Furniture	37.92	43.59	37.51	35.22	32.73[d]			
Hardware	26.92	26.13	26.33	31 90[c]				
Women's ready-to-wear	29 87	30 93	28.54	32 87	24 18	24.88[e]		
Men's clothing and furnishing	31.84	30.04	31.69	33 17[c]				

Source: Census of Distribution, Retail Distribution, "Retail Chains."

[a] The operating expenses listed do not include wholesaling costs such as are incurred in operating chain store warehouses.

[b] More than 100 units.

[c] More than 10 units.

[d] More than 25 units.

[e] More than 50 units.

[f] Less than 26 units.

[g] 101 to 1,000 units.

[h] More than 1,000 units.

it is impossible to secure cost facts for chains with 2, 6, or 10 stores each. Even where an attempt has been made to analyze the statistics by size of chain, as determined by the number of units, down to the smallest chain organization, both retail and chain store warehouse costs were included, as was done by the Federal Trade Commission. The only study, therefore, that the authors were able to uncover, that made a separation of retail and wholesale costs, in which small as well as large chains were included and in which chains were classified by the number of retail units operated, was the Census of American Business of 1929. From that source Table 25 has been compiled. It is to be regretted that no such data were presented for 1933 or 1935.

According to the data in Table 25, economies do not invariably arise from extending operations over a number of units. A tendency for operating costs to decrease as the number of units increases is apparent in the furniture, women's ready-to-wear, and grocery and meat chains. Hardware and men's wear chain costs tend to increase when units are added, whereas no definite trend is discernible in the other lines.

Stated otherwise, increasing chain volume through the addition of retail units does not necessarily result in a decrease in relative operating costs when all lines of trade are considered, but the exceptions are very important. For example, in the case of grocery and meat chains, the expense differential between the chains operating 1,000 stores or more and those operating 11 to 25 is 2.6 per cent, which in itself may not seem to be a significant difference when expressed as a percentage. However, it means a difference of approximately $1,000 per store when expressed in dollars, and that is significant, especially when the ability to pay graduated license taxes is considered.

CHAIN STORE PROFITS

Closely akin to operating costs in chain store distribution is the problem of net profits. Indeed it is common business parlance to speak of gross margins, which include operating costs, as gross profits. Profit is an illusive concept for business men and economists alike; hence a word of clarification is needed. From the business man's standpoint, profits, or the hope of them, represent a primary reason for being in business. He looks upon them as a measure of his success as a business man. He finds them, if there are any, in the difference between his business income and his outgo, or between his receipts and his merchandise costs plus the costs of doing business. The economist, with a scientific approach, delves a little deeper into the subject of profits than does the business man. In the end, both come out at about the same place. Profits, in a dynamic economy, are essentially the price which society places upon the services of business men as entrepreneurs. They tend to measure at once society's demand for such services and the business man's appraisal of his own worth.

Profits are essentially a residue. They are what is left after paying for merchandise purchased, wages for services rendered,

rents for building and land occupied, interest for borrowed capital, and taxes levied by governmental agencies. They comprise the funds available after deducting the costs of conducting the business, including the cost of the merchandise.

Several sources of information relating to chain store profits are available. The Federal Trade Commission gathered rather complete data prior to 1930, the Harvard University Bureau of Business Research compiles statistics for several classes of chain stores, and the annual reports of individual corporations contain much valuable material. But sources of recent chain store earnings are few and widely scattered.

Federal Trade Commission Data on Chain Store Profits.—There is a wide variation in the percentages of net operating profits realized by different kinds of business. Table 26 reveals

TABLE 26.—NET OPERATING PROFITS OF CHAIN STORES
(Average for eight years)

Kind of Chain	Operating Profits, % of Net Sales
Grocery	2.10
Grocery and meat	2.82
Meat	2.45
Confectionery	6.04
Drug	4.21
Tobacco	2.68
Variety ($1 limit)	9.16
Variety ($5 limit)	2.88
Variety (unlimited)	0.23
Men's ready-to-wear	2.39
Women's ready-to-wear	4.35
Men and women's ready-to-wear	8 84
Men's furnishings	0.75
Women's accessories	2.69
Hats and caps	−0.42 (loss)
Millinery	2.36
Men's shoes	4.64
Women's shoes	3.45
Men's and women's shoes	3.17
Dry goods	1.15
Dry goods and apparel	5.93
General merchandise	3 66
Furniture	11.46
Hardware	3.24

Source: Federal Trade Commission, "Chain Stores—Sales, Costs, and Profits of Retail Chains," p. 18. U.S. Government Printing Office, Washington, 1932.

the net profits on sales for a wide variety of trades which the Federal Trade Commission gathered for the years 1913, 1919, 1922, 1925, 1927, 1928, 1929, and 1930.

With one insignificant exception chains as a class showed net profits in all trades, though the variation among the different kinds of business was very great. Food chains showed profits ranging from 2.10 per cent for groceries to 2.82 per cent for combination grocery and meat stores. Furniture stores earning a net operating profit of 11.46 per cent and variety stores ($1 limit) with a profit of 9.16 per cent proved to be the most successful kinds of chain stores during these years when judged from the profitableness of the business. Inasmuch as the sales volume per store for these various types of trade varies considerably, the profits earned per store vary even more widely than do the sales percentage figures.

The Commission also attempted to determine the influence of the length of the chain upon net profits, and, as shown in Table 9, Chap. IV, no uniform tendency was visible. In some trades profits increased with the size of the chain, and in others they decreased, although it is true that in those lines of business in which chain stores are most prominent, there was an inclination for net profits expressed as a percentage of net sales to become greater with the increase of chain store units.

Profit on Invested Capital.—When expressed as a percentage of invested capital the profit percentages earned by various types of chain stores loom much larger than when expressed in terms of net sales. Table 27 shows the net gain of a number of chain systems individually and by groups for the years 1929 through 1936 as a percentage of net worth. It is evident that the return on the net investment compares very favorably with other types of business. In fact, few businesses were as fortunate as the chain stores during the depression.

The net earnings of all the chain organizations listed in Table 27 average better than 10 per cent, which is truly remarkable since the years covered are largely depression years. It is doubtful if any other large industry was able to show such a record. Individually, there was considerable variation between companies but when considered by groups, earnings were relatively stable and high. The grocery chains show net profits of about 10 per cent on net worth, the variety chains about 14 per cent, the shoe

TABLE 27.—CHAIN STORE NET PROFITS[a] AS A PERCENTAGE OF NET WORTH

Kind of chain	1929	1930	1931	1932	1933	1934	1935	1936
Grocery chains:								
The Great A. & P. Tea Co.	20.6	22.5	19.7	14.4	12.7	10.3	10.3	10.2
Kroger Groc. & Bak. Co.	11.2	4.3	5.3	5.9	9.7	8.8	8.4	7.1
Safeway Stores	15.9	10.1	11.5	12.4	9.4	8.5	7.5	9.0
American Stores	15.2	13.3	13.5	12.3	12.9	10.0	8.1	7.0
First National Stores	24.1	22.0	21.2	17.1	16.5	22.0	12.0	13.9
National Tea Co.	12.9	6.5	4.0	5.8	7.1	2.8	2.2	1.6
Daniel Reeves	25.4	28.0	22.9	18.9	8.7	6.2	7.3	7.5
Dominion Stores	14.1	12.3	11.9	8.3	8.0	0.5	*D*[b]	*D*[b]
Southern Grocery Co.	*D*[b]	*D*[b]	7.4	5.1	7.2	9.4	3.0	8.1
David Pender	12.4	1.8	5.5	0.2	6.0	9.3	5.7	8.8
Shaffer Stores	2.3	1.8	3.4	0.5	*D*[b]	3.1	3.7	6.4
Bohack	10.8	9.6	7.4	7.3	3.0	2.5	*D*[b]	*D*[b]
Average earnings per dollar of net worth[c]	17.9	15.4	14.7	12.0	11.5	9.4	8.6	8.9
Limited-price variety chains:								
F. W. Woolworth Co.	22.4	20.5	24.9	13.6	16.9	18.2	16.9	17.0
S. S. Kresge Co.	17.9	12.4	11.1	6.6	9.2	10.4	10.2	10.7
McCrory Stores	8.3	7.7	3.9	*X*	*R*	*R*	22.1	21.2
J. J. Newberry	10.6	15.2	7.1	5.4	9.8	14.0	12.4	13.9
McLellan Stores	10.7	2.8	4.6	*X*	*R*	*R*	23.5	22.8
Neisner Brothers	18.5	6.0	*D*[b]	*D*[b]	9.4	13.5	13.7	16.1
G. C. Murphy	13.4	9.6	11.9	8.8	16.2	20.1	20.2	22.7
W. T. Grant	14.8	14.6	12.5	6.4	12.2	9.1	10.9	14.2
S. H. Kress & Co.	16.6	9.8	8.7	5.7	8.1	8.9	8.6	8.5
Average earnings per dollar of net worth[c]	18.6	15.1	15.8	9.5	12.9	14.5	13.3	14.2
Shoe chains:								
Melville Shoe Co.	20.6	16.8	11.7	10.5	18.6	20.7	21.6	24.5
G. R. Kinney Co.	8.4	1.1	*D*[b]	*D*[b]	*D*[b]	2.9	0.4	2.1
Schiff Co.	19.4	13.7	13.0	8.5	19.2	14.2	11.2	13.9
Average earnings per dollar of net worth[c]	14.9	9.1	3.3	6.5	10.7	13.4	13.8	15.6
Drug chains:								
Walgreen	18.6	9.5[d]	11.8	11.5	13.3	16.8	14.0	15.8
Peoples Drug Stores	17.1	12.2	10.8	8.6	10.4	19.2	16.3	21.7
Average earnings per dollar of net worth[c]	18.3	10.2	11.7	10.8	12.4	17.5	14.7	17.3

[a] Net profit after deduction of Federal tax.

[b] Deficits deducted when computing average return on net worth.

[c] Average earnings are weighted and not merely arithmetic averages.

[d] Computed on basis of returns for first nine months of the year and therefore possibly a little low.

D Deficit

R In receivership

X Figures not available

Source: Computed from annual reports in Moody's, Standard Statistics, and other services.

chains slightly lower, perhaps 13 per cent, and drug chains, about 14 per cent.

As a corporation's earning power is generally judged on the basis of its ability to return profits on the capital invested,

TABLE 28.—CHAIN STORE NET PROFITS PER STORE, FOR SELECTED TRADES, 1920–1936[a]

Year	Kind of chain			
	Grocery, and grocery and meat[b]	Shoe[c]	Drug[d]	Variety[e]
1920	$ 882	$8,821	$ 5,399	$ 7,760
1921	1,241	9,341	10,852	10,925
1922	1,225	7,838	14,042	15,929
1923	1,279	6,764	9,727	17,996
1924	1,324	4,851	11,423	16,909
1925	1,206	4,327	11,260	18,611
1926	1,259	3,147	10,127	19,020
1927	1,334	3,514	9,456	20,127
1928	1,578	3,459	11,137	18,749
1929	1,694	3,242	7,841	16,237
1930	1,490	1,811	4,144	13,690
1931	1,518	542	4,608	13,360
1932	1,231	90	3,594	7,600
1933	1,228	1,566	4,200	10,738
1934	1,338	2,002	6,298	13,382
1935	950	2,030	5,569	12,532
1936	838	2,416	6,582	14,014

[a] Net profit computed from data presented in "The Chain Stores Come of Age," by Hugh M. Foster, *Printers' Ink Monthly*, April 1937, pp. 79–94.

[b] Sample for computing net profit includes 72.7 per cent of total chain store volume in groceries.

[c] Sample for computing net profit includes 21.6 per cent of total chain store volume in shoes

[d] Sample for computing net profit includes 24.3 per cent of total chain store volume in drugs.

[e] Sample for computing net profit includes practically 100 per cent of total variety chain sales.

it follows that chains qualify as both lucrative and stable dividend producers. By practically all standards, large corporate chains have been, over a period of years, extremely profitable enterprises.

Operating Profits per Store.—In view of the recent legislation affecting chain stores, a significant analysis of earnings is that of the net profits per store. Previously it was shown that earnings

expressed as a percentage of net sales vary widely among the different classes of chain stores. The data in Table 28 show that the profits per store vary in even greater degree. Variety store profits are many times greater than chain grocery store earnings. The latter are now averaging approximately $1,000 per store, while the former are running well-nigh 15 times that figure. Chain shoe stores are netting about $2,500 annually and chain drugstores in excess of $6,000 each. These profit figures are somewhat understated, as Federal income taxes were deducted before computing the net profit.

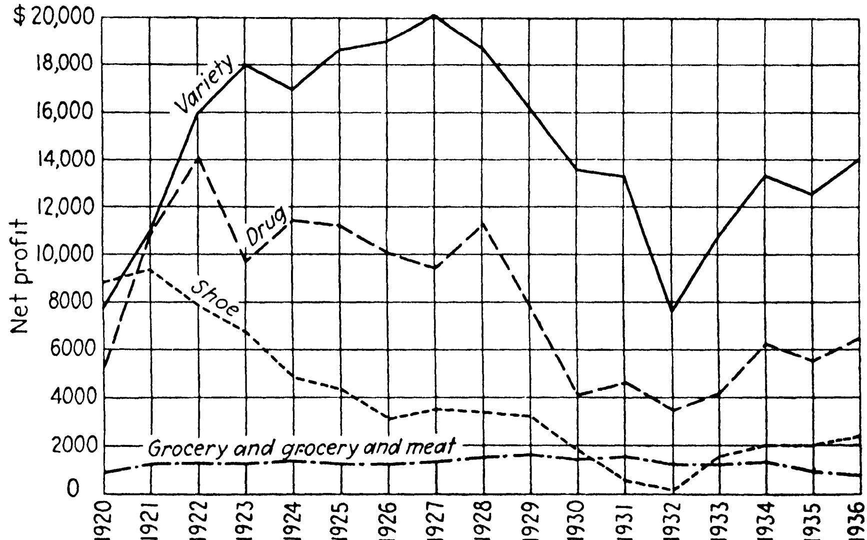

FIG. 6.—Chain store net profits per store, for selected trades, 1920–1936.

The trend of profits per store during the past 17 years is revealed by Fig. 6. Several interesting tendencies are worthy of mention. In the case of grocery chains, profits have remained rather steady in the neighborhood of $1,200 per store, with a definite downward tendency in recent years. These declining profits are not due to an increase in expenses, as it was shown earlier in the chapter that chain grocery costs have declined since 1933. Nor are they due to a fall in sales volume, since Table 29 and Fig. 7 show that volume per store has increased rather than decreased in recent years. Nor can the decline in net profit be traceable to the chain store tax as that is too recent a development materially to affect the profit figures shown. Even though the tax were affecting chain stores, it would show up in an increase in

net operating costs. There has been no noticeable increase in that direction. The elimination of the above possibilities leaves only one probable explanation, and that is that competition has become more intense for the grocery chains and they have been forced to lower their prices to meet the competition of other chains, the more efficient independents, and the supermarkets.

Variety store sales and profits per store were adversely affected by the depression, but the trend for both figures is definitely

TABLE 29.—CHAIN STORE SALES PER STORE FOR SELECTED TRADES, 1920–1936[a]

Year	Kind of chain			
	Grocery, and grocery and meat	Shoe	Drug	Variety
1920	$51,146	$189,235	$170,062	$137,069
1921	43,728	129,677	154,648	149,527
1922	38,572	115,035	170,465	162,112
1923	37,750	107,111	147,184	177,260
1924	35,463	87,295	152,945	184,120
1925	35,532	70,401	190,920	194,184
1926	42,206	62,491	153,984	198,622
1927	47,532	58,345	149,387	197,657
1928	56,546	58,113	136,089	190,911
1929	60,882	59,116	122,133	184,791
1930	60,514	55,295	104,268	170,144
1931	58,692	47,632	126,025	161,667
1932	50,478	37,278	107,426	141,072
1933	49,431	39,115	104,991	145,130
1934	52,983	44,454	118,363	158,437
1935	56,402	46,682	125,150	159,897
1936	69,730	51,437	132,648	177,295

[a] Computed from same source as data in Table 28 and the samples are the same.

upward with the return of more prosperous business conditions. Shoe chain stores have demonstrated a very decided downward trend in both sales and profits per store. During 1920 sales averaged $189,235 for each of the 101 chain shoe stores listed, but during the past ten years average sales per store have in no year reached $60,000, nor have profits gone above $3,514. Shoe chains felt the effects of the depression acutely, and during 1932 their profits were virtually eliminated when the 1,109 units averaged

but $90 net profit per store. Conditions in the chain shoe trade reflect the changes that have resulted from the entrance of many chain store companies into that business, although their net profits in relation to net worth are still substantial.

Chain drugstore sales and profits per store, while showing the results of the depression, have remained relatively stable. Sales

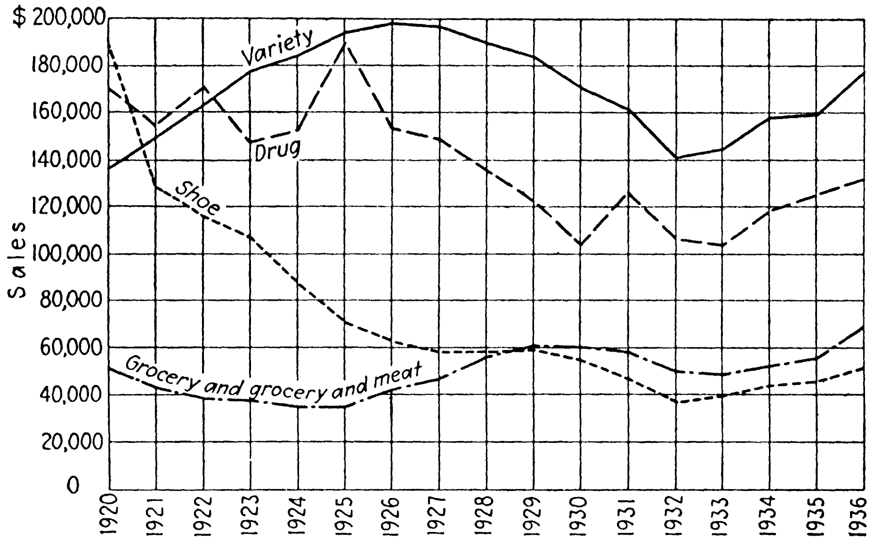

FIG. 7.—Chain sales per store, for selected trades, 1920–1936.

per store average well over $100,000, and profits are running about 4 or 5 per cent.

One outstanding feature revealed by the above data is that sales and profits for different kinds of chain stores vary greatly. This is especially significant in view of recent chain store taxation which classifies chain stores merely on the basis of the number of units operated. It would appear that a more equitable condition would result if variations were also made among the different kinds of stores. Certainly stores netting upwards of $10,000 annually exhibit greater capacity to pay taxes than chains earning a tenth, or less, of that amount per store unit.

CHAPTER X

CONSUMER PATRONAGE OF CHAIN AND INDEPENDENT STORES

A disputed question of long standing is one that relates to the attitude of consumers toward chain and independent stores, the extent to which they patronize the two types of stores, and the particular reasons for such patronage.

It is to be assumed that consumers as a rule know what they want. One often hears the expressions: "The consumer is King," or "The consumer is the court of last resort." This is certainly true to the extent that the consumer rejects or accepts what the business man offers. It is, therefore, an axiomatic principle of merchandising to have the goods which consumers desire, at the places where they are wanted, at a time to meet consumer demand, and at prices which consumers prefer to pay or readily accept.

In pursuing this principle, there has been a vague notion that consumers desire any number of things, but considerable difference of opinion is current as to just what those things are and the relative intensity of the consumer's desire or demand for them. For example, chain store executives have been contending that price is the sole desideratum from the consumer's viewpoint and that consumers patronize their stores merely because they can secure merchandise at lower prices than charged by independents. This sort of reasoning has been advanced in opposition to suggestions that chain stores should pass on to the consumers at least a part of the chain store tax which is now being levied in some 20 states. Many others, however, contend that the chains have so many advantages that they may pass on part of the tax by raising prices, absorb the difference out of profits, and still undersell the independent or the smaller chains. It is also alleged that price does not occupy so high a place in the consumer's mind when it comes to choosing the type of store from which to buy.

Purpose of Consumer Buying-preference Surveys.—Just what place price occupies as a patronage motive no one can tell without further investigation. As far as the authors know, only four

studies have been made to date on this score, one by Professor Paul D. Converse, of the University of Illinois, one by the Federal Trade Commission, one by Professor George E. Fouch, of Wittenberg College, and one was conducted in Florida by one of the authors. The first study[1] was made in Champaign-Urbana, Ill., and the number of consumers interviewed was not given, but it is believed to have been very small. The second[2] investigation covered 30 communities, but these towns had an average population in 1930 of less than 4,000 inhabitants, and the largest town numbered but 5,106 persons. Furthermore, the number of consumers interrogated on their attitudes toward chains or independents was limited to 495, only 312 of whom gave information as to reasons for buying from chain or independent stores. Moreover, in the Commission's Report it is stated that only 85 of these persons represented "what is probably the typical consumer," the remainder consisting of business and professional men, bankers, and others, whose attitudes are not typical of the average consumer. The study conducted by Professor Fouch was made in Springfield, Ohio,[3] and, though the sample secured was ample, it can hardly be claimed that the city studied is typical of the chain store situation in the United States generally. Springfield, a city of 69,000 persons, has only 15 national chain grocery stores and some 68 grocery stores belonging to local chains. The authors feel, however, that this latter study reveals some very interesting data relative to consumers' attitudes and for that reason are drawing freely on this particular survey which was made under the supervision of one of the authors.

Nature of the Florida Consumer Buying-preference Survey.—With the view to determining factually consumer reactions to various patronage motives, a survey was undertaken in four Florida cities on Aug. 27, 1935. Jacksonville was chosen to

[1] CONVERSE, PAUL D., "Prices and Services of Chain and Independent Stores in Champaign-Urbana, Illinois," The Bulletin of the National Association of Teachers of Marketing and Advertising, 1931 series, October, No. 4, New York.

[2] Federal Trade Commission, "Chain Stores—The Chain Store in the Small Town," pp. 50–60, U. S. Government Printing Office, Washington, 1934.

[3] FOUCH, GEORGE E., "Patronage Motivation in the Purchasing of Groceries by Springfield, Ohio, Consumers," a thesis submitted for the degree of Master in Business Administration, Ohio State University, 1937.

represent the largest cities, Orlando was selected as representative of the intermediate-sized cities, and Lakeland and Tallahassee as representative of cities having less than 25,000 inhabitants.

The schedule used in this survey (shown in Appendix F) was designed to yield information along the following lines:

1. The type of store, chain or independent, from which the bulk of the family groceries, drugs, shoes, and women's ready-to-wear are normally purchased was ascertained. These classes of stores were selected principally for two reasons. In the first place, they represent kinds of business in which chains play a prominent role. Second, they represent the two most important classes of merchandise, namely, convenience goods and shopping goods.

Parenthetically, it may be stated that convenience goods which are typified in this study by groceries and drugs are those items of merchandise which are purchased by the average consumer at the most convenient place, at frequent intervals, and in small amounts. The unit value of such items is usually small and hence does not justify much shopping on the part of the housewife. Furthermore, most articles in the convenience goods field are generally well known to the housewife, the consumer is conscious of his need, and immediate satisfaction of the need is usually desired. Shopping goods, on the other hand, which are typified by shoes and women's ready-to-wear are those articles of merchandise which the average consumer normally buys after visiting two or more stores for the purpose of making comparisons of quality, price, and, particularly, style. Such merchandise is of a higher unit value than convenience goods, it is not purchased so frequently by the average housewife, and immediate satisfaction of the need is not so essential.

2. A second point in the survey dealt with the reasons why the housewife prefers to buy most of her groceries in a given type of store. An attempt was made to secure three reasons from each respondent for patronizing a chain or independent grocery store, and every effort was made to secure the honest first reactions of the consumer. Interviewers were instructed to mark the reasons stated as "first," "second," and "third" in the order in which they were given expression. To facilitate the securing of these data on a more or less uniform basis, 10 of the more common reasons were listed on the schedule and additional

space was provided so that reasons other than listed could be indicated if specified by the consumer.

3. A third question was designed to elicit information from the consumer on reasons for buying women's ready-to-wear from chain or independent stores. It was felt that reasons for buying groceries also applied to the other class of convenience goods consisting of drugs, and that reasons for buying women's ready-to-wear would be equally applicable to the purchase of shoes, particularly for women and children. In addition to the 10 more or less common or general reasons listed under groceries for convenience in checking, another reason relating to style was included in Question 3 of the schedule.

4. With a view to securing precise information as to the economic condition of the families covered in the survey, provision was made on the schedule for an inquiry of the monthly rental of the dwelling occupied by the respondent. For this purpose the families interviewed were divided into those on relief, those occupying dwellings whose monthly rental was estimated at $15.00 and under, those whose dwellings commanded a monthly rental of from $16.00 to $25.00, those with a monthly rental of from $26.00 to $50.00, and residences with a monthly rental value of more than $50.00.

5. Adequate space was provided on the schedule for remarks either by the interviewer or by the respondent. Every schedule was dated and signed by the interviewer who was required carefully to report on the schedule the name of the consumer interviewed and the address.

The Canvass.—As previously indicated, the survey was conducted in four cities representative of different-sized Florida communities. The canvass was made in all the cities within a period of five days in the latter part of August, 1935.

The interviewers were selected with the greatest of care and were carefully trained before going into the field. The desire to secure only accurate information was impressed upon the canvassers. They were allowed some leeway in gathering the data but were directed to secure information only from the housewife, who may be regarded as the typical consumer and the one who actually does the purchasing.[1]

[1] A more detailed explanation of the canvass is to be found in "Prices in Chain and Independent Stores in Florida" by T. N. Beckman, pp. 154–155.

The schedules secured by the interviewers were carefully examined for completeness and consistency. Schedules showing irregularities that could not be corrected by the editors were discarded. Thanks to the care exercised during the canvass, relatively few schedules had to be discarded.

Representativeness of the Sample.—An attempt was made to secure a sample of approximately 5 per cent of the families found in the cities canvassed in the survey. Inasmuch as there were 47,938 families in the four cities[1] studied, an actual sample of 5.74 per cent was obtained by securing satisfactory schedules from 2,752 families. Even allowing for the increase in population that has taken place since 1930, the sample would still be somewhat in excess of 5 per cent.

In order that due consideration might be given to possible variations in consumer attitudes and buying preferences because of differences in their standards of living and income levels, an attempt was made to secure information from consumers in all strata of society and the interviewers grouped them in one of five categories according to the monthly rental of the homes they occupied. For tabulating purposes, the families in the two lowest income groups were treated as one class, designated as the "very low income group." They included those on relief and families which resided in homes whose monthly rental was $15 or under. The low-income group included families residing in places with a monthly rental valued at $16 to $25. The medium-income group included families living in dwellings with an estimated monthly rental of $26 to $50. The last, or "higher income group," included all families occupying homes with an estimated rental value of more than $50.

Table 30 shows the distribution of respondents by income groups. It indicates that adequate representation was given to all classes of consumers by income groups, if it is assumed that the rental value of the property occupied as a residence is indicative of a family's station in life and that there is a direct relationship between income received and the amount spent for rent or its equivalent.

[1] Fifteenth Census of the United States. 1930, Population Bulletin—Families, Florida, Tables 9 and 21, U.S. Government Printing Office, Washington, 1932.

As might be expected, the largest proportion of the families canvassed was in the low-income group within which more consumers are to be found than in any other class, at least in the area surveyed. The number of consumers interrogated in the other income groups was in relation, although perhaps not in exact ratio, to the relative number of consumers in each of those groups.

TABLE 30.—DISTRIBUTION OF 2,752 FAMILIES ACCORDING TO INCOME GROUPS, BY CITIES

City	Income groups				
	Total for all income groups	Very low	Low	Medium	High
All cities:					
Number	2,752	849	963	709	231
Per cent	100.0	30.8	35.0	25.8	8.4
Jacksonville:					
Number	2,016	619	702	524	171
Per cent	100.0	30.7	34.8	26.0	8.5
Orlando:					
Number	319	103	135	74	7
Per cent	100.0	32.3	42.3	23.2	2.2
Lakeland:					
Number	267	111	95	48	13
Per cent	100 0	41.5	35 6	18.0	4.9
Tallahassee:					
Number	150	16	31	63	40
Per cent	100.0	10.7	20.7	42.0	26.6

Division of Purchases between Chains and Independents.—Of the 2,752 consumers from whom information was obtained in answer to the question, "At what type of store do you purchase most of your groceries?" 1,496, or 54.36 per cent, indicated that they bought most of their groceries from chain stores, while 1,154, constituting 41.93 per cent, purchased the bulk of their groceries from independents, and 102, or 3.71 per cent, stated that their purchases were about equally divided between chains and independents.

In the case of drugs, only 34.81 per cent of the 2,752 consumers purchased the bulk of such merchandise from chains, while 60.36 per cent largely patronized independents, and 4.83 per cent claimed to divide their purchases of drugs equally between chains and independents. In the purchase of shoes, 37.90 per cent of the consumers bought largely from chains, while 52.58 per cent purchased most of their shoes from independents, and 9.52 per cent divided their purchases equally between the two types of stores. Women's ready-to-wear, while also in the shopping class, like shoes, was bought largely from chains by a smaller percentage of the consumers than in the case of shoes. Considerably over one half (55.7 per cent) of the consumers made purchases of women's ready-to-wear regularly from independent stores, and 13.27 per cent of the consumers had no special preference but claimed to divide their purchases of such goods equally between chains and independents.

TABLE 31.—NUMBER AND PROPORTION OF CONSUMERS PURCHASING SPECIFIED LINES OF MERCHANDISE FROM CHAIN AND INDEPENDENT STORES, ALL CITIES
Total number of consumers = 2,752

Kind of business	Buy most of the goods from				Divide purchases equally	
	Chains		Independents			
	Number of consumers	% of all consumers	Number of consumers	% of all consumers	Number of consumers	% of all consumers
Total	4,351	.....	5,795	.....	862	
Groceries........	1,496	54.36	1,154	41.93	102	3.71
Drugs	958	34.81	1,661	60.36	133	4.83
Shoes...........	1,043	37.90	1,447	52.58	262	9.52
Women's ready-to-wear.......	854	31.63	1,533	55.70	365	13.27

Summing up the data appearing in Table 31, one may conclude that consumers favor chains more than independents in the purchase of groceries, but the reverse is true in their purchases of drugs. Next to groceries, chains operating shoe stores meet with the greatest favor of consumers, followed by drugstore

chains and by women's ready-to-wear chain stores, respectively. In all cases except groceries, over one-half of the consumers buy most of their goods from independents. In women's ready-to-wear, where the style element is of some importance, a larger number of consumers failed to express any special preference than was true of any of the other classes of merchandise.

Substantial differences may be noted in the division of consumer patronage between chains and independents in the different cities (see Table 32). The largest proportion of consumers who buy most of their groceries from chain stores are to be found in Jacksonville, while each of the remaining three cities showed a consistently lower preference for chains in the purchase of groceries. While in Jacksonville 60.37 per cent of the consumers buy the bulk of their groceries from chain stores, in Orlando only 34.80 per cent give most of their patronage to chain grocery stores and in Lakeland only 35.96 per cent; but in Tallahassee as many as 48 per cent of the consumers prefer to buy most of their groceries from chains. In the purchase of shopping goods, Jacksonville leads in the preference for chains, followed by Lakeland, and Orlando. Only 6 per cent of the consumers interviewed in Tallahassee buy most of their shoes and women's ready-to-wear from chain stores. No doubt in some of the cases the availability of chain stores in a given line of business in the community may be as potent a factor in influencing consumer choice of the type of store as is the consumer's attitude which is based on other grounds.

Conversely, the preference for independent stores is greater in smaller communities than in the large cities where trading is more impersonal. In the smaller towns a larger percentage of the consumers also seem to divide their purchases of women's ready-to-wear equally between chains and independents, indicating that a number of consumers have no strong feelings in the matter as yet, whereas in the larger cities consumer attitudes toward chain stores and independents are apparently more crystallized. The latter circumstance may have been occasioned by the longer existence of chains in the large cities. On the other hand, the relatively recent invasion of the smaller cities by chains has not as yet resulted in a large following.

Division of Purchases between Chains and Independents, by Income Groups.—In Table 33 an analysis by income groups is

TABLE 32.—NUMBER AND PROPORTION OF CONSUMERS PURCHASING SPECIFIED LINES OF MERCHANDISE FROM CHAIN AND INDEPENDENT STORES, BY CITIES

Kind of business	Buy most goods from				Divide purchases equally	
	Chains		Independents			
	Number of consumers	% of all consumers	Number of consumers	% of all consumers	Number of consumers	% of all consumers
Jacksonville						
Grocery	1,217	60.37	736	36.51	63	3.12
Drug	779	38.64	1,135	56.30	102	5.06
Shoe	909	45.09	894	44.35	213	10.56
Women's ready-to-wear	730	36.21	1,040	51.59	246	12.20
Orlando						
Grocery	111	34.80	201	63.01	7	2.19
Drug	46	14.42	263	82.44	10	3.14
Shoe	59	18.50	250	78.36	10	3.14
Women's ready-to-wear	54	16.93	247	77.43	18	5.64
Lakeland						
Grocery	96	35.96	157	58.80	14	5.24
Drug	102	38.20	156	58.43	9	3.37
Shoe	66	24.72	182	68.16	19	7.12
Women's ready-to-wear	61	22.85	137	51.31	69	25.84
Tallahassee						
Grocery	72	48.00	60	40.00	18	12.00
Drug	31	20.67	107	71.33	12	8.00
Shoe	9	6.00	121	80.87	20	13.33
Women's ready-to-wear	9	6.00	109	72.67	32	21.33

presented of consumer preferences for buying groceries from chain stores and from independents. The data are given for all four cities combined. Not all of the consumers interviewed expressed a definite preference. There were 102 of the 2,752 consumers interviewed who stated that they divided their purchases of groceries equally between chains and independents. Consequently, the data in Table 33 are shown for only 2,650 families.

TABLE 33.—NUMBER AND PROPORTION OF CONSUMERS BUYING MOST OF THEIR GROCERIES FROM CHAINS AND INDEPENDENTS, CLASSIFIED ACCORDING TO INCOME GROUPS

Income group	Percentage distribution by income groups	Total		Consumers buying most of their groceries from			
				Chains		Independent	
		Number	%	Number	%	Number	%
All income groups....	100.0	2,650	100.0	1,496	56.5	1,154	43.5
Very low income group..	31 1	823	100.0	420	51 0	403	49.0
Low-income group......	35 6	943	100.0	524	55.6	419	44.4
Medium-income group..	25 5	676	100.0	422	62.4	254	37.6
Higher income group....	7.8	208	100.0	130	62.5	78	37.5

From this table it will be noted that the distribution of the families for which data are presented is representative as between the different income groups, especially as related to the distribution shown in Table 30. It will be further noted that consumers in the very low income group patronize chain grocery stores the least and that a much larger proportion of the consumers in the medium- and higher income groups buy most of their groceries from chain stores. These proportions are 51 per cent for consumers in the very low income group, 55.6 per cent for consumers in the low-income group, 62.4 per cent for consumers in the medium-income group, and 62.5 per cent for consumers in the higher income classification. Naturally, the reverse is true of independent store patronage. While only 37.5 per cent of the consumers in the higher income group buy the bulk of their groceries from independent stores, as much as 49 per cent of the

consumers in the very low income group extend such patronage to independent merchants. This fact takes on significance when related to the reasons for patronage that will be discussed in the following pages.

A similar analysis was made for women's ready-to-wear. Table 34 shows the number and proportion of consumers buying most of their requirements in such merchandise from chain stores or from independents. Not all of the consumers expressed a definite preference for either chain stores or independents in the purchase of women's ready-to-wear; hence, the data on this class of merchandise are given for only 2,387 of the 2,752 families interviewed. The remaining 365 consumers claimed to divide their purchases equally among chains and independents.

From the second column of Table 34 it is evident that the distribution of the consumers indicating the type of store from which they buy the bulk of women's ready-to-wear is representative of the various strata or economic groups. In this tabulation consumers in the very low income group made up 29.1 per cent,

TABLE 34.—NUMBER AND PROPORTION OF CONSUMERS BUYING MOST OF THEIR REQUIREMENTS IN WOMEN'S READY-TO-WEAR FROM CHAINS AND INDEPENDENTS, CLASSIFIED ACCORDING TO INCOME GROUPS

Income group	Percentage distribution by income groups	Total		Consumers buying most of their women's ready-to-wear from			
				Chains		Independents	
		Number	%	Number	%	Number	%
All income groups....	100.0	2,387	100.0	854	35.8	1,533	64.2
Very low income group..	29.1	694	100.0	291	41.9	403	58.1
Low-income group......	35.5	847	100.0	348	40.7	502	59.3
Medium-income group..	27.4	655	100.0	182	27.9	473	72.1
Higher income group....	8.0	191	100.0	36	18.9	155	81.1

consumers in the low-income group constituted 35.5 per cent of the total number included, consumers in the medium-income group represented 27.5 per cent, and consumers in the higher income group comprised 8.0 per cent of all consumers for whom

data are given in the table. These figures compare with the relative importance of all the consumers shown in Table 30 by income groups, with 30.8 per cent, 35.0 per cent, 25.8 per cent, and 8.4 per cent, respectively.

Unlike the experience recorded for groceries, consumers in the very low income group patronize chain stores in their purchase of women's ready-to-wear more than the consumers in the higher income groups. Of the 2,387 consumers who gave their experiences in this regard, 35.8 per cent buy most of their requirements in such merchandise from chain stores, and 64.2 per cent buy the bulk of these goods from independently operated stores. In the very low income group, 41.9 per cent of the consumers give their patronage largely to chains and 58.1 per cent to independents. In the low-income group, only 40.7 per cent of the consumers give the bulk of their business to chain stores, while in the medium-income group the percentage of consumers giving most of their business in ready-to-wear to chain stores drops to 27.9 per cent, and in the higher income group it is as low as 18.9 per cent. This, of course, means that fully 81.1 per cent of the consumers in the higher income group buy most of their needs in women's ready-to-wear from separately owned stores, and as many as 72.1 per cent of the consumers in the medium-income group do likewise. Just what the reasons are for such differences in consumer attitudes and reactions will be analyzed in subsequent chapters.

CHAPTER XI

WHY CONSUMERS BUY GROCERIES FROM CHAIN OR INDEPENDENT STORES

In any attempt to analyze the reasons why consumers in any given section of the United States patronize either chain stores or independent merchants, several factors must be given due consideration. In the first place, it is very difficult, although not impossible, to determine accurately by means of interviews the various factors which motivate consumers to buy at a certain type of store. The difficulty can be largely overcome by employing only carefully trained interviewers. Second, in seeking the causes which motivate consumers to patronize one store in preference to another, it must be remembered that while a single reason may dominate, the choice is usually governed by a whole set of circumstances. It becomes necessary, therefore, to consider not only one but several patronage motives. Third, since the position of a factor in a schedule may influence the consumer's reaction to that factor, it becomes necessary to vary its location in the schedule.[1] It may be necessary to place it first on some schedules, second on others, etc. As far as it was possible, the above safeguards were followed in the Florida study in order that only wholesome and unbiased results would be obtained.

Summary of Findings in the Florida Consumer Survey.—The consumer patronage portion of the Florida study made in 1935 revealed some intensely interesting information as to the reasons why consumers choose to buy from either chain or independent stores. The summarized results of this investigation are presented in Table 35.

In the case of consumers who give the bulk of their patronage in groceries to chain stores, the most frequently stated reason for

[1] Since much of the controversy regarding chain store patronage appeals centers about the element of price, the position of that important factor was altered on the various schedules of the Florida study. A checkup revealed that the position of price on the schedule made little difference in the results obtained since the schedule was not shown to the consumer.

such action is lower price. Under this heading fall 1,248, or 28.14 per cent, of the 4,435 reasons. No other single reason for buying from chain stores approaches it in importance, although at least three other reasons were stated frequently. These reasons, in the order of their importance judged by the number of times they were mentioned, are wider selection of goods, convenient location, and better quality. The force of these motives for

TABLE 35.—REASONS WHY CONSUMERS BUY MOST OF THE FAMILY GROCERIES FROM CHAINS OR FROM INDEPENDENT MERCHANTS

Reason	Buying from chain stores		Buying from independent stores	
	Number of reasons given by 1,496 persons	% of total reasons given	Number of reasons given by 1,154 persons	% of total reasons given
Lower price	1,248	28.14	416	12.39
Convenient location	698	15.74	675	20.11
Better quality	631	14.23	487	14.51
Wider selection of goods	832	18 76	247	7 36
Pleasing personality	320	7.22	518	15 43
Credit	48	1.08	403	12.00
Delivery	104	2.34	235	7.00
Sanitary and clean	152	3.43	117	3.49
Advertising	231	5.21	51	1.52
Good store appearance	67	1.51	37	1.10
Other reasons	104	2.34	171	5.09
Total reasons	4,435	100.00	3,357	100.00

patronizing chain grocery stores is shown by the fact that wider selection of goods was mentioned 832 times by the 1,496 consumers, representing 18.76 per cent of all the reasons given. Convenient location of the stores was mentioned 698 times, or 15.74 per cent of all the reasons mentioned. These two reasons together were mentioned more times than lower price. Fourth in importance is better quality of the merchandise, which was mentioned 631 times out of total of 4,435. Pleasing personality of the store manager or of any of the employees was fifth in the trade-pulling power of grocery chain stores, followed by advertis-

ing, cleanliness of the store, delivery service offered to customers, good store appearance, and credit. All other reasons combined accounted for only 2.34 per cent of the total number of reasons.

The reason most often advanced for buying from independent grocers is convenient location of the store. This reason was mentioned 675 times by the 1,154 consumers who trade largely with independents, or 20.11 per cent of the total number of reasons given by these persons. Next in importance is the pleasing

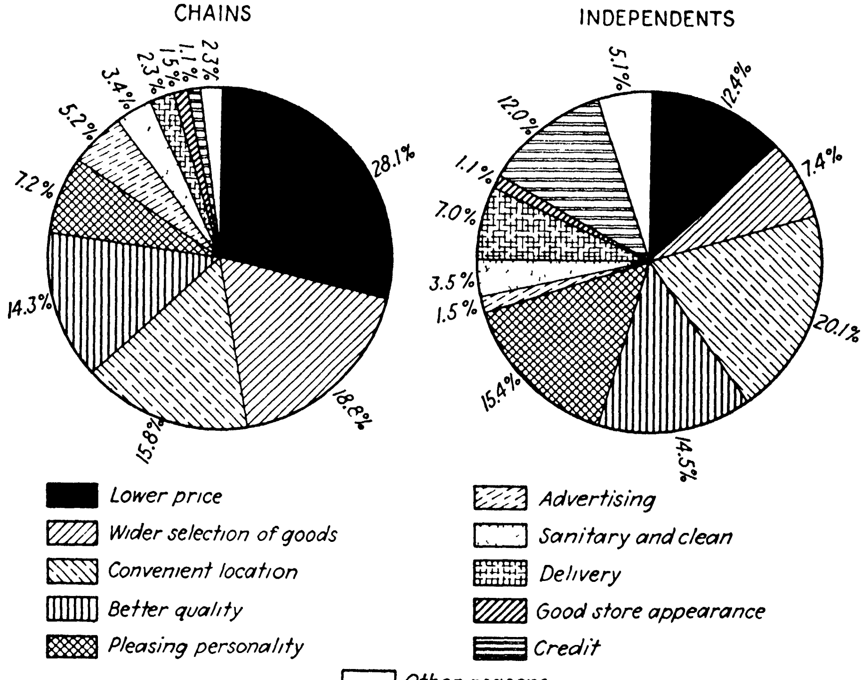

FIG. 8.—Percentage distributions of reasons given by consumers for buying groceries from chain or independent stores.*

* The chart is based upon an analysis of totals of first, second, and third reasons.

personality of the proprietor or his employees, this reason being mentioned 518 times, or 15.4 per cent of the total. Third in patronage attraction is better quality of merchandise, which followed closely behind pleasing personality, the former being mentioned 487 times, or 14.51 per cent of the total number of reasons. The fourth most important reason for buying from independent grocers is lower price. It was mentioned 416 times by the 1,154 persons. Obviously, the chain stores do not have a monopoly on the price appeal; some independents apparently

make such an appeal with equal force. The fifth reason is credit, which was given 403 times, or 12 per cent of the total, followed by wider selection of goods, delivery service, cleanliness of the store, advertising, and good store appearance. All other reasons combined were mentioned 171 times, constituting 5.09 per cent of the total number of reasons mentioned by the 1,154 persons.

A careful examination of the data presented in Table 35 and Fig. 8 reveals the following significant facts:

1. In the case of grocery chain stores lower price is the single most important patronage motive.

2. Lower price, however, is not the only reason why consumers buy from chains. All of the other reasons combined represent 71.86 per cent of the total number of reasons mentioned by regular chain store customers.

3. Florida consumers are attracted to chain grocery stores by appeals other than price, the three most powerful incentives in addition to lower price being wider selection of goods, convenient store location, and better quality of the merchandise.

4. If the total pulling power of grocery chains is to be measured by the aggregate of the reasons mentioned for such patronage, lower price represents but a little over one-fourth of the attraction, while the three reasons next in importance represent almost one-half of the attraction.

5. It is significant that 3.42 per cent of the reasons for buying groceries from chain stores are to be found in the delivery and credit service given by the stores, although such stores are not supposed to render such services.

6. Convenient store location ranks first in trade-pulling-power of independents, exceeding in importance both credit and delivery services. This is a significant factor also in the choice of chain stores.

7. While price is also an important factor in attracting patronage to independent stores, being mentioned 416 times, or 12.39 per cent of total reasons given for such patronage, it is of much less significance than in the case of chain stores.

8. The most important reasons given for chain store patronage are fewer in number than in the case of independents. The four most important incentives to trade at chain stores account for 76.87 per cent of all reasons mentioned, while in the case of

independent grocers the five most important reasons account for but 74.44 per cent of all reasons mentioned.

9. Pleasing personality of store personnel is a much more important attraction in the case of independents than it is in chain stores.

10. Advertising as a reason for buying from grocery chain stores was mentioned by more than three and one-half times as many customers as in the case of independent-store customers, although in neither case is it an outstanding factor possibly because the consumer is more apt to think of the appeals conveyed through the advertisements than of advertising per se.

11. Better quality of merchandise is referred to in less than one-sixth of the total number of reasons and occupies about the same rank for both chains and independents.

12. Wider selection of merchandise is named 2½ times as often by chain store customers as by the customers of independents.

13. The proportion of favorable mention with respect to cleanliness of the store is about the same for both chains and independents.

14. The combined advantages enjoyed by independent grocers in the matter of price and services (credit and delivery) just about equal the combined advantages enjoyed by chains from the same sources, although chains fare better on the price question by more than two to one as compared with independents.

A number of the significant facts revealed in the Florida study are highlighted to an even greater degree in the Springfield, Ohio, survey, summarized in Table 36. This investigation disclosed that the price appeal was actually of less importance in influencing consumers to trade at either chain or independent stores than was the factor of convenience of location, and what may appear even more startling was the fact that it was relatively more important in the patronage of independent stores than in chain stores. A partial explanation of this situation is that the bulk of the chain store grocery business of Springfield is done by local chains which presumably place less emphasis on price than do the larger national chain organizations. But, regardless of this fact, it is further proof that the magnetic force of price has been overemphasized. It apparently is not so essential to successful chain store merchandising as many have believed it to be.

Analysis of "First" Reasons for Buying Groceries from Chain or Independent Stores.—As indicated in a previous connection, each consumer interviewed was asked to give several reasons for buying most of the family groceries from the type of store favored by the respondent. The interviewer was required to record the first three reasons in the order in which they were mentioned.

TABLE 36.—TOTAL REASONS GIVEN BY 902 SPRINGFIELD, OHIO, FAMILIES FOR BUYING MOST OF THEIR GROCERIES AT CHAIN OR INDEPENDENT STORES

Reasons for patronage	Number of reasons given			Percentage distribution		
	Chain	Independent	Total	Chain	Independent	Total
Convenient location.	284	223	507	25.6	21.4	23.6
Lower price.	186	178	364	16.8	17.1	16.9
Better quality.	188	150	338	17.0	14.4	15.7
Wider selection	137	104	241	12.3	10.0	11.2
Pleasing personality.	103	119	222	9.3	11.4	10.3
Delivery	37	65	102	3.3	6.2	4.7
Friends and relatives.	35	58	93	3.2	5.6	4.3
Credit	26	46	72	2.3	4.4	3.4
Sanitary and clean	30	28	58	2.7	2.7	2.7
Good store appearance.	21	16	37	1.9	1.5	1.7
Advertising	7	1	8	0.6	0.1	0.4
Other	55	54	109	5.0	5.2	5.1
Total	1,109	1,042	2,151	100.0	100.0	100.0

Source: FOUCH, G. E. "Patronage Motivation in the Purchasing of Groceries by Springfield, Ohio, Consumers," a thesis presented for the Degree of Master in Business Administration, Ohio State University, 1937.

This does not necessarily mean that the reasons were given by consumers in the order of their relative importance. It may well be that two of the reasons mentioned in any one case were of equal significance but they naturally could not be mentioned in the same breath. Furthermore, certain reasons might have come first to mind when the question was asked although others may normally occupy a more prominent position. Certainly there is no ground for the belief that in a great number of cases the elimination of the first reason mentioned would cause customers to change their choice of stores, since final action on this score is

usually a resultant of a number of motivating forces. Consequently no attempt was made to weight the three reasons recorded for each consumer on the basis of first, second, or third mention. These factors may also account for the fact that in its Chain Store Investigation, the Federal Trade Commission included in the analysis the total numbers of reasons advanced by the persons interviewed concerning their choice of store as

TABLE 37.—WHY CONSUMERS BUY MOST OF THE FAMILY GROCERIES FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from chain stores		First reason for buying from independents	
	Number of consumers	% of total	Number of consumers	% of total
Lower price	888	59.36	210	18.20
Delivery	17	1.14	41	3.55
Credit	21	1 40	240	20 80
Wider selection of goods	78	5.21	39	3 38
Better quality	96	6.42	110	9.53
Convenient location	225	15.04	272	23 57
Advertising	43	2.87	10	0 87
Pleasing personality	82	5.48	122	10.57
Good store appearance	1	0.07	3	0.26
Sanitary and clean	7	0.47	11	0.95
Other reasons	38	2.54	96	8.32
Total	1,496	100.00	1,154	100.00

between chains and independents, and did not even distinguish the reasons by rank of mention when two or more reasons were given by a single informant.[1] Similar treatment was given to such results in a University of Buffalo study made in 1932. It is specifically stated therein that "when more than one reason was given, all were tabulated and the percentage of all reasons is shown."[2]

[1] Federal Trade Commission, "Chain Stores—The Chain Store in the Small Town," pp. 52–55, U.S. Government Printing Office, Washington, 1934.

[2] McGARRY, EDMUND D., "Consumers' Buying Habits in Satellite Cities," Supplement, *Statistical Survey*, the University of Buffalo Bureau of Business and Social Research, November, 1932.

Despite the fact that the reason *first* mentioned may not necessarily be the *primary* reason or of such importance as to outweigh all other reasons, it is felt that greater weight should be attached to it, since on the whole it probably occupies a more important place in the customer's mind than either of the two reasons mentioned second or third. In conformity with this thinking, a separate tabulation of first reasons, *i.e.*, reasons mentioned first and not necessarily the reasons of primary

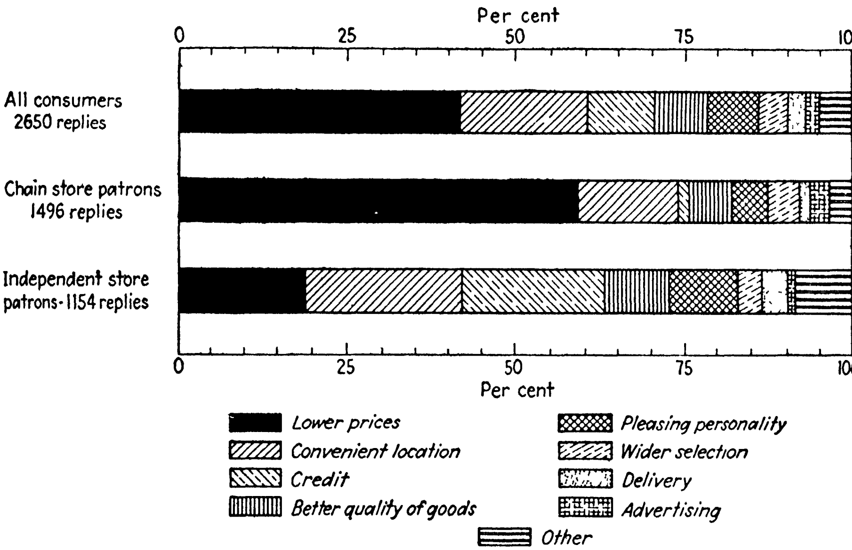

FIG. 9.—Percentage distributions of first reasons for buying groceries from chains and independents.

importance, has been prepared and is presented in summarized form in Table 37 (see also Fig. 9).

Out of every 100 consumers claiming to buy most of their grocery requirements from chain stores, 59 mentioned lower price first, as a reason for their choice of store, while 41 of such customers considered reasons other than lower price as the most important incentive for patronizing chains. Of these other reasons, convenient store location leads the list, with 15 out of every 100 regular chain store customers giving that as the first reason for buying from stores of their selection. Another 17 out of every 100 regular chain store customers patronize the stores of their choice because of better quality of merchandise, pleasing personality of store employees, and wider selection of goods, given in the order of their relative importance. These five reasons,

taken together, account for 91.51 per cent of all the first reasons given for chain store patronage.

In the case of the 1,154 consumers who buy most of their groceries from independent stores, about 24 out of every 100 mentioned first convenient store location as a reason for their regular patronage. Credit is a close second, with about 21 out of every 100 customers giving that as the first reason. Third in importance in trade-pulling power when reckoned in terms of first reasons only, is lower price. Strange as it may seem, over 18 out of every 100 consumers who buy most of their groceries from independent merchants do so mainly because of lower prices obtained at such stores, indicating that the price appeal is not peculiar to chain store merchandising. Pleasing personality of the proprietor or his employees and better quality of merchandise are next in importance, with 10.57 and 9.53 per cent of all the first reasons, respectively, being assigned to them. Thus, the major five reasons for *chain store* patronage, based on the reasons mentioned first are, in the order of their relative importance, lower price, convenient location, better quality, pleasing personality, and wider selection of goods. For *independent* grocers the five major appeals similarly determined are convenient location, credit, lower price, pleasing personality, and better quality.

From the above it will be noted that, on the basis of the first reasons given by consumers for the choice of chain or independent stores, of the five leading appeals four are the same for both chains and independents and but one, namely credit, stands, out prominently as a patronage motive for independents but has little significance in attracting trade to the chain grocery stores. However, the four major appeals which apply to both types of stores vary in relative importance as between the types of stores to which they apply. Convenient location is an important factor in both cases, although it is a little over 1½ times as important in attracting trade to independents as to chains. A similar situation obtains in the case of better quality. Pleasing personality has twice as much pulling power for independents as for chains. On the other hand, the price appeal is a little over three times as powerful a motive in attracting trade to the chain stores as it is in attracting business to independent grocers, if it is assumed that the reason given first by each consumer is the most important or the primary motive for the choice of the type of store.

The relative importance of lower price as a factor in attracting trade to chain grocery stores is not so great as may appear at a first examination of the results of the reasons mentioned first. In the first place, the price appeal is apparently also utilized to a considerable extent by independent stores, as shown by the fact that 18 out of every 100 regular independent-store customers are primarily motivated by that appeal. In the second place, it is significant that 41 per cent of the regular chain store customers are *not* primarily interested in price. Third, it should be repeated that even in the case of the 59 regular chain store customers out of every 100 who mentioned price first as a reason for their chain store patronage there are other reasons which influence their choice of stores. As shown in Appendix G, almost 29 out of every 100 regular grocery chain customers consider wider selection of goods as a second reason, 19 regard better quality as second in importance, 15 refer to convenient location as a second patronage incentive, 6 mention pleasing appearance, and only 5 are secondarily attracted by the chain store advertising. It should also be mentioned that of the reasons ranked as second, 16 out of every 100 gave lower price. This refers, of course, to those who consider some reason other than lower price as the first incentive.

On the basis of these facts, one is, therefore, forced to the conclusion that, while price is a powerful patronage appeal of the chain grocery stores, it is but one of a number of major appeals that are being made by such stores and that grocery chain customers are influenced by a number of important factors all of which can be utilized successfully by both chain stores and independents as sales promotional devices and as a means of tying customers to the store. Both types of stores may compete for business not only through lower prices, but also by locating the stores at convenient points, by hiring more engaging employees, by stocking the stores with a wider assortment of merchandise, and by improving the quality of the goods.

Analysis of First Reasons for Buying Groceries from Chain or Independent Stores, by Income Groups.—Obviously, the relative importance of lower price and other appeals as motivating factors for store patronage will vary widely according to the income status of the consumer. From a preceding analysis of first reasons for patronage in the purchase of groceries by Florida

consumers it is evident that lower price is a leading motive, particularly insofar as chain store trade is concerned. As might be expected, lower price is the principal motive in the selection of grocery stores by consumers in the very low income group (see Table 38). Of the 823 consumers in this group, that were interviewed on this subject, 51.52 per cent gave lower price as the first reason in choosing a given type of store for regular dealings. Furthermore, of the 420 consumers in this group which patronize

TABLE 38.—WHY CONSUMERS IN THE VERY LOW INCOME GROUP BUY MOST OF THEIR GROCERIES FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from				Total	
	Chains		Independents			
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	317	75.48	107	26.55	424	51.52
Delivery	2	0.48	3	0.74	5	0.61
Credit	10	2.38	112	27.79	122	14.82
Wider selection of goods	15	3.57	13	3.23	28	3.40
Better quality	20	4.76	16	3.97	36	4.37
Convenient location	36	8.57	98	24.32	134	16.28
Advertising	5	1.19	1	0.25	6	0.73
Pleasing personality	12	2.86	29	7.20	41	4.98
Good store appearance	...	......	1	0.25	1	0.12
Sanitary and clean	...	......	4	0.99	4	0.49
Other reasons	3	0.71	19	4.71	22	2 68
Total	420	100.00	403	100 00	823	100 00

chain stores regularly, 75.48 per cent are primarily motivated by lower price, and 26.55 per cent of the consumers in this group buy regularly from independents for the same reason. This bears out the contention that lower price is a strong motivating factor in the grocery purchases of consumers with very little income, and also indicates that while three-fourths of chain store patronage from this class of trade is attracted to such stores largely through price, over one-fourth of the patronage of like consumers is attracted to independents for similar reasons.

For consumers in the very low income group who purchase largely from chain stores, the convenient location of the store ranks second in importance. This is followed by better quality of goods, wider selection of merchandise, and credit. Patronage of independent grocers on the part of consumers in the very low income class is motivated mainly by three factors, roughly of equal importance. These are: credit, lower price, and convenient store location. Credit is given as a first reason for buying principally from independent merchants by 27.79 per cent, lower price by 26.55 per cent, and convenient location by 24.32 per cent of the consumers.

TABLE 39.—WHY CONSUMERS IN THE LOW-INCOME GROUP BUY MOST OF THEIR GROCERIES FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	Chains		Independents		Total	
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	292	55.73	60	14.32	352	37 33
Delivery	11	2.10	20	4.77	31	3 29
Credit	6	1.15	82	19.57	88	9.33
Wider selection of goods	29	5.53	13	3.10	42	4.45
Better quality	31	5.92	44	10 50	75	7.95
Convenient location	84	16.03	99	23.63	183	19 40
Advertising	30	5.72	9	2.15	39	4.14
Pleasing personality	25	4.77	57	13.60	82	8.70
Good store appearance	1	0.19	2	0.48	3	0.32
Sanitary and clean	3	0.57	1	0.24	4	0.42
Other reasons	12	2.29	32	7.64	44	4.67
Total	524	100.00	419	100.00	943	100.00

In the low-income group, lower price was given as a first reason for patronage of grocery stores in 37.33 per cent of the cases (see Table 39). But of the consumers in this income group, who buy most of their groceries from chain stores, the price appeal is mentioned first in 55.73 per cent of the cases, and only in 14.32 per cent of the cases where consumers in this group buy largely from independent grocers.

A substantial proportion of customers falling in this income category who buy regularly from chain grocery stores are primarily attracted to the stores by the convenient location, better quality of the goods, advertising, and wider selection of goods. Independent grocery store patronage from this group of consumers is secured principally through convenient location, credit, lower price, pleasing personality, and better quality of goods.

TABLE 40.—WHY CONSUMERS IN THE MEDIUM-INCOME GROUP BUY MOST OF THEIR GROCERIES FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	Chains		Independents		Total	
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price...... .	214	50.71	34	13.39	248	36.69
Delivery.... . .	3	0.71	15	5.91	18	2.66
Credit........ ...	4	0.95	33	12.99	37	5.47
Wider selection of goods	23	5.45	9	3.54	32	4 73
Better quality...... .	29	6.87	37	14.46	66	9.76
Convenient location..	83	19.67	64	25.20	147	21.75
Advertising........	7	1.66	...	......	7	1.04
Pleasing personality....	38	9.00	27	10.63	65	9.62
Good store appearance..		......	1	0.39	1	0.15
Sanitary and clean....	4	0.95	5	1.97	9	1.33
Other reasons...	17	4 03	29	11.42	46	6.80
Total.... . . .	422	100.00	254	100.00	676	100.00

Thus, in this income group the relative importance of price in attracting trade is much less than in the very low income group. Furthermore, for all consumers in this income group the reasons other than lower price, collectively, are almost twice as important as is price in attracting business, but for those who buy largely from chain stores, reasons other than price, taken collectively, are almost as important as price.

The general tendency is for lower price as a patronage appeal to become less and less important as the income of the consumer increases. For consumers in the medium-income group, lower

price is indicated as a first reason by 36.69 per cent of the replies (see Table 40). For consumers in this income group who buy largely from chain stores, 50.71 per cent give lower price as a first reason and of those who buy largely from independents 13.39 per cent give lower price as a first reason. In the case of chain store patrons falling in this income group, next to lower price as a first reason for patronage comes convenient location, followed by pleasing personality, better quality of goods, and wider selection

TABLE 41.—WHY CONSUMERS IN THE HIGHER INCOME GROUP BUY MOST OF THEIR GROCERIES FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	Chains		Independents		Total	
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	65	50 00	9	11 54	74	35.58
Delivery	1	0.77	3	3 85	4	1.92
Credit	1	0.77	13	16.67	14	6.73
Wider selection of goods	11	8.46	4	5 13	15	7.21
Better quality	16	12 31	14	17 95	30	14.42
Convenient location	22	16 92	11	14.10	33	15.87
Advertising	1	0.77	..	...	1	0.48
Pleasing personality	7	5.38	8	10 26	15	7.21
Good store appearance						
Sanitary and clean						
Other reasons	6	4.62	16	20.50	22	10.58
Total	130	100.00	78	100.00	208	100.00

of merchandise. The principal patronage appeals, judged by the first reasons, of independent stores in attracting business from consumers in the medium-income group are convenient location, better quality, lower price, credit, and pleasing personality.

In the higher income group only 35.58 per cent of the consumers give lower price as a first reason in choosing the type of grocery store to patronize (see Table 41). Of the 130 consumers in this group who buy largely from grocery chains, 50 per cent indicated lower price as the first reason for such patronage. This was followed by convenient location, better quality, and wider selec-

tion of goods. Of those in this group who purchase mainly from independent grocers, only 11.54 per cent give lower price as the first reason, the most important appeals being better quality of merchandise, credit, and convenient location.

An analysis of the first reasons for patronage given by consumers in the various income groups reveals a distinct inverse relation between the size of income and the importance of the credit factor. This reason is given in 14.82, 9.33, 5.47, and 6.73 per cent of the replies, respectively, for those in the very low income group, low-income group, medium-income group, and higher income group. For the consumers buying largely from independents these percentages are 27.79, 19.57, 12.99, and 16.67, respectively, for the groups in the order indicated above.

The tendency for credit to become less important a factor in securing grocery business as income brackets increase does not seem to apply in the case of consumers in the higher income group. This slight deviation may be explained by the fact that patrons in this class utilize credit more as a convenience rather than as a necessity, whereas in the lower income groups credit is more of a necessity.

The analysis also reveals that as price and credit become less important progressively through the income groups, convenient location takes on greater significance. To this, again, an exception is found in the higher income group. To consumers in this stratum, location is apparently less important because of the general availability of transportation facilities in the form of motor vehicles.

From the data presented in Table 33 it is seen that larger and larger proportions of the consumers buy regularly from grocery chains as one progresses to the higher income groups. While only 51 per cent of the consumers in the very low income group buy most of their groceries from chain stores, the same is true of 55.6 per cent of the consumers in the low-income group, of 62.4 per cent of the consumers in the medium-income group, and of 62.5 per cent of the consumers in the higher income group. On the other hand, the data in Tables 38 to 41 show that lower price as a patronage motive becomes less important progressively through the income groups. This indicates that there is a very close inverse relationship, by income groups, between the importance of the price factor and the proportionate amount of patron-

age enjoyed by chain grocery stores. Stated otherwise, it means that grocery chain stores secure a larger proportion of the business from the medium and higher income classes of the population than from the lower income groups and that in the case of the consumers economically better situated the price factor is not so important as it is for the other classes of society. In fact, it is believed to be even less important than indicated by the statistics, since many consumers in the higher income groups who gave lower price as a first reason for choosing a given type of grocery store probably did so for effect in order to rationalize their action.

CHAPTER XII

CONSUMER ATTITUDE TOWARD CHAIN STORES IN THE PURCHASE OF SHOPPING GOODS

In the preceding chapter are shown the results of an analysis of reasons for buying groceries from chain or independent stores. While these results are probably equally applicable to other lines of merchandise in the convenience goods class, such as drugs and hardware, the same assumption cannot be made concerning consumer motives in selecting the type of store at which to buy shopping goods. In the case of shopping goods (*i.e.*, goods which are bought by consumers, usually women, generally after comparison has been made, in two or more stores, of such matters as style, quality, price, and any number of other factors) consumers are motivated more by different patronage appeals than they are when buying convenience goods. Style and the variety of selection offered would naturally be more important in the purchase of merchandise of this type, and one would expect to find price and convenience of location of less influence.

In order to determine just how consumers react when selecting the type of store at which to purchase shopping goods, a survey of consumer patronage motives in shopping goods was made in Florida by one of the authors in conjunction with the grocery study. It was felt that an analysis of the reasons for buying women's ready-to-wear was also applicable to other lines of shopping goods such as women's shoes, dry goods, costume jewelry, and the like. The summarized results of that study are given in the succeeding pages.

Summary of Findings.—A total of 2,752 consumers were interviewed in order to determine the extent to which they patronize chain stores or independents and the reasons therefor. Of this number, 365 indicated no special preference for either type of store insofar as the purchase of women's ready-to-wear is concerned. In fact, they claimed to divide their purchases of such goods equally between the two types of retail stores. However,

2,387, or 86.73 per cent of the consumers expressed a definite preference for a given type of store. Of these, only 854 consumers stated that they buy most of their requirements in women's ready-to-wear from chain stores. This represents but 31.03 per cent of the consumers expressing a preference for chain stores as contrasted to 54.36 per cent of all the consumers expressing such a preference in the case of groceries.

The 854 consumers gave a total of 2,515 reasons for patronizing chain stores regularly. The 1,533 consumers who stated that they buy most of their women's ready-to-wear requirements from independent stores gave a total of 4,488 reasons for such action. The number of reasons advanced by the 2,387 consumers who voiced their preferences are classified and presented in Table 42 (see also Fig. 10).

The most frequently stated reason for buying the bulk of women's ready-to-wear from the chain stores is lower price. In this classification fall 668, or 26.56 per cent of the 2,515 reasons given by regular chain store patrons. While no other reason for buying from chain stores approaches it in importance, lower price is not so significant in the purchase of this kind of merchandise as it is in buying groceries from chains, and at least three other reasons were stated with great frequency. These reasons, in the order of their importance as judged by the number of times they were mentioned, are wider selection of goods, better quality, and style. The first of these three reasons was mentioned 464 times by the 854 regular chain store customers, representing 18.45 per cent of all the reasons given. Better quality of merchandise was mentioned 461 times, or 18.33 per cent of the total number of reasons. On the basis of all reasons mentioned, these two factors can therefore be regarded as of equal importance in the mind of the consumer. These two reasons together were mentioned more than 1⅓ as many times as lower price.

Fourth in importance is style, which was mentioned 355 times out of total mentions of 2,515, constituting 14.11 per cent of the total number of reasons given for buying largely from chain stores. When the weight of the style factor is added to that of wider selection of goods and better quality, the three reasons combined are almost as important as lower price in trade-pulling power.

Advertising is the next most powerful factor in attracting trade to the women's ready-to-wear chain stores, followed by the pleas-

ing personality of the store manager or other employees, convenient location of the store, credit facilities provided for customers, store appearance, cleanliness of the premises, and delivery service. "Other reasons" accounted for 19 mentions, or 0.76 per cent of the total reasons given.

In attracting trade to independent stores in the women's ready-to-wear field, better quality of merchandise leads all other

TABLE 42.—REASONS WHY CONSUMERS BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAINS OR INDEPENDENTS

Reason	Buying from chains		Buying from independents	
	Number of reasons given by 854 persons	% of total reasons given	Number of reasons given by 1,533 persons	% of total reasons given
Lower price	668	26 56	604	13.46
Better quality	461	18 33	982	21 88
Wider selection	464	18.45	578	12 88
Style	355	14.11	714	15 91
Pleasing personality	150	5.96	526	11 72
Advertising	170	6.76	189	4 21
Credit	54	2.15	333	7.42
Convenient location	102	4 05	192	4.28
Good store appearance	46	1 83	94	2.09
Delivery	12	0 48	89	1.98
Sanitary and clean	14	0.56	23	0.51
Other reasons	19	0.76	164	3 66
Total	2,515	100.00	4,488	100.00

appeals. This reason was mentioned 982 times by the 1,533 consumers who trade largely in such stores, constituting 21.88 per cent of the total number of reasons given for such patronage. As might be expected, style is second in importance, this reason being mentioned 714 times, or 15.91 per cent of the total. The next three reasons are of approximately the same weight; they are as follows: lower price, with 604 mentions, or 13.46 per cent of all reasons given; wider selection of goods, with 578 mentions, or 12.88 per cent; and pleasing personality, being mentioned 526

times, or 11.72 per cent of all mentions. Sixth in importance as a patronage motive for buying from independents is credit, followed by store location, store advertising, store appearance, delivery service, and cleanliness of the place of business. "Other reasons" were mentioned 164 times, or 3.66 per cent of the total.

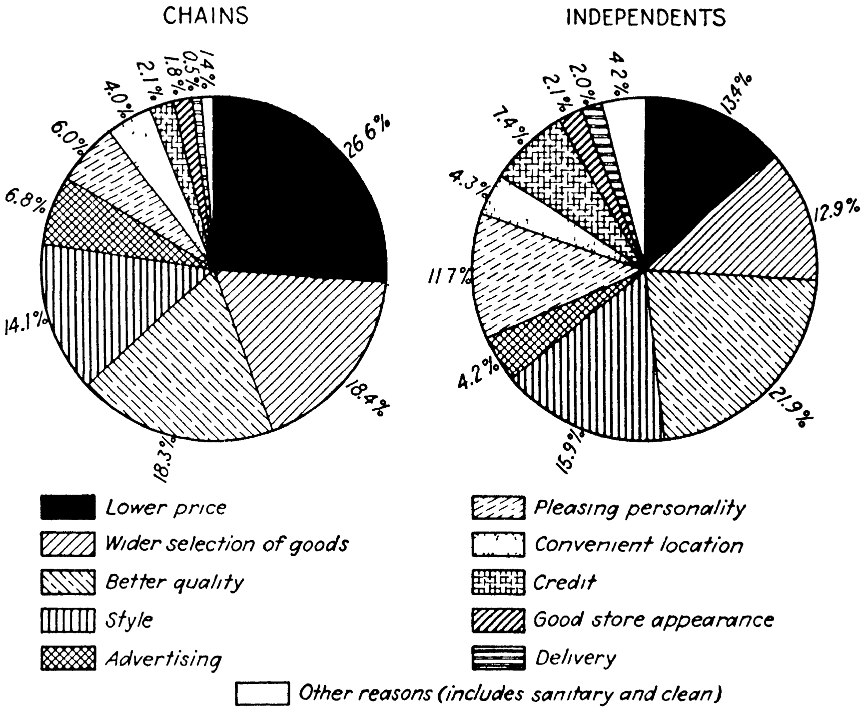

Fig. 10.—Reasons why consumers buy most of their women's ready-to-wear from chain or independent stores.*

* This chart is based on an analysis of totals of first, second, and third reasons.

The following significant facts may be gleaned from a close analysis of the data shown in Table 42. These conclusions are based on the assumption that the total number of mentions equal 100 per cent and that each mention is given the same weight.

1. In the case of the chain stores operating in the women's ready-to-wear field lower price is the single most significant patronage motive, but it is only twice as important as it is in attracting trade to the independent merchants engaged in the same line of business.

2. Lower price is not the only reason why consumers buy women's ready-to-wear from chain stores. All of the other

reasons combined represent 73.44 per cent of the total number of reasons mentioned by regular chain store customers.

3. Consumers are attracted to ready-to-wear chain stores by appeals other than lower price, the three most powerful incentives next to lower price being wider selection of goods, better quality, and style.

4. If the total pulling power of women's ready-to-wear chain stores is to be measured by the aggregate of the reasons mentioned for such patronage, lower price represents but a little over one-fourth of the attraction, while the three reasons next in importance represent over one-half of the attraction and, taken together, are about twice as important as lower price.

5. Better quality of merchandise ranks first in trade pulling power of independent stores, exceeding in importance any of the other patronage motives by a considerable margin. While this is also significant in attracting trade to chain stores, it occupies a third position and is less significant than in the case of independents.

6. While price is also an important factor in drawing trade to independents it is one-half as significant as in the case of chain stores.

7. Style is second in importance as a patronage appeal of independents but occupies only fourth position among the chain store appeals. It is believed, however, that the element of style is also implied in the consumer's desire for a wider selection of goods. In the case of shopping goods, the wider assortment of merchandise usually affords an opportunity for a better style selection. When wider selection of goods and style are taken together, the chain stores have the edge over independents, since in the former these two factors account for 32.56 per cent of all reasons given for patronizing such stores, while only 28.79 per cent of the reasons for patronizing the latter type of store are to be accounted for in the same manner.

8. The number of important appeals at the chain store's disposal appears to be smaller than that at the command of independents. The four most important incentives to trade at chain stores account for 77.45 per cent of all reasons mentioned, while in the case of independents the four most important reasons account for only 64.13 per cent of all reasons mentioned for such patronage.

9. Credit is more than three times as important a patronage motive in trading with independents than with chain stores, despite the fact that among the chains are to be found the purely installment stores handling the cheaper varieties of merchandise. This seems to be overbalanced by the chain units which sell largely or entirely for cash.

10. Chain stores attract a relatively larger proportion of their trade through a wider assortment of merchandise than do independents, the ratio being approximately $1\frac{1}{2}$ to 1.

11. Store location as a patronage appeal is not a very significant factor, since most of such stores are generally located in shopping areas, and no variation is to be noted in this factor as between the two types of stores. This emphasizes further the distinction in consumer attitudes based upon classes of merchandise. It will be recalled that convenient store location ranks first as a patronage motive in buying groceries from independents and also occupies third rank in attracting business to grocery chains. However, in the purchase of ready-to-wear this factor holds seventh place in trade attraction to independents as well as to chain stores.

12. Chain store advertising apparently has $1\frac{1}{2}$ times the pulling power of independents.

13. Pleasing personality of the management or the employees has double the attraction for independent-store patronage as compared with that of chain stores. Not only that, but it ranks high in the case of independent stores, this reason being mentioned by 526 customers and accounting for 11.72 per cent of all the reasons mentioned for buying regularly from independents. This same factor accounts for but 5.96 per cent of the reasons for buying regularly from chain stores.

14. No special difference may be noted in the effect upon customers of store appearance, sanitation, and cleanliness. Both types of stores are equally attractive in these respects, and in neither case are those factors significant, probably because such conditions are taken for granted in the apparel line of business.

15. A larger proportion of regular independent-store patrons named reasons not specifically provided for on the questionnaire than in the case of regular chain store patrons, the proportion being 3.68 per cent and 0.76 per cent, respectively, of the total number of reasons given in each case.

"First" Reasons for Buying Women's Ready-to-wear from Chain or Independent Stores.—The analysis of reasons for buying women's ready-to-wear from chain or independent stores presented in the preceding pages was based on the *total* number of reasons given by consumers. As pointed out in several other connections, three reasons were recorded for most consumers, on the theory that consumers are prompted to buy at a certain type of store for a number of reasons, even though a single motive may

TABLE 43.—WHY CONSUMERS BUY MOST OF THE REQUIREMENTS IN WOMEN'S READY-TO-WEAR FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from chain stores		First reason for buying from independents	
	Number of consumers	% of total	Number of consumers	% of total
Lower price	436	51.05	290	18.92
Style	132	15.45	243	15.85
Better quality	73	8.55	298	19.44
Wider selection of goods	72	8.43	169	11.02
Credit	39	4.57	210	13.70
Pleasing personality	22	2.58	107	6.98
Advertising	48	5.62	45	2.94
Convenient location	14	1.64	53	3.46
Delivery	5	0.59	16	1.04
Good store appearance	2	0.23	11	0.72
Sanitary and clean	1	0.12	3	0.19
Other reasons	10	1.17	88	5.74
Total	854	100.00	1,533	100.00

dominate at any given time. That this is actually the case is a truism and needs no special justification or discussion. Nevertheless, the reasons given were ranked according to the order in which they were mentioned. It was also indicated in that connection that the foregoing analysis based on total mentions is sound and generally accepted, or at least has precedents. But in order to throw further light on the subject and to supplement the preceding discussion, a separate tabulation was prepared of first reasons, *i.e.*, of reasons mentioned first, and the results are presented in Table 43 (see also Fig. 11).

Out of every 100 consumers buying most of their needs in women's ready-to-wear from chain stores, 51 gave lower price as a first reason. On the other hand, 19 out of every 100 consumers who stated that they buy most of such goods from independents also gave lower price as the first reason. Almost one-half of the regular chain store patrons consider other reasons than lower price as the major incentive for patronizing the stores of their choice. Of these other reasons, style is by far the most important; in fact, it is almost twice as important as any of the reasons

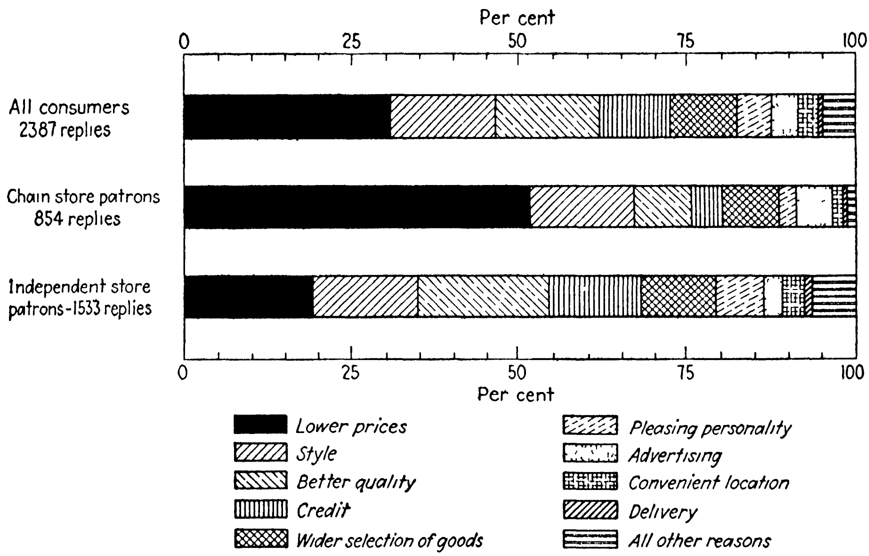

FIG. 11.—Percentage distributions of first reasons given by consumers for buying most of their women's ready-to-wear from chain or independent stores.

given except that of "price." Over 15 per cent of the consumers using chain stores chiefly, gave style as a first reason for buying from such stores. Better quality of goods and wider selection are of practically the same relative importance, the first accounting for 8.55 per cent and the second one for 8.43 per cent of the regular chain store patrons. Fifth in rank from the standpoint of trade attraction of chain stores is advertising, followed by credit. These six reasons, taken together, account for 93.67 per cent of the first reasons for chain store patronage.

In the case of the 1,533 consumers who buy most of their women's ready-to-wear from independently operated stores, almost 20 out of every 100 patronize such stores because of better quality as a first reason. Lower price is second in importance in

motivating power, with 18.92 per cent of the consumers giving that as the first reason. Style ranks third, being given as first reason in 15.85 per cent of the cases, and credit is fourth, with 13.7 per cent of the consumers mentioning it first. Wider selection of goods holds sixth place, with pleasing personality in seventh position. The leading six reasons, together, account for 85.91 per cent of all first reasons for buying from independent stores, indicating less of a concentration in patronage motives than in the case of chain stores.

Thus, the six major reasons for chain store patronage in the line of merchandise under consideration, based on reasons mentioned first, are, in the order of their relative importance, lower price, style, better quality, wider selection of goods, advertising, and credit. For independent stores operating in the same business the six major appeals similarly determined and ranked are better quality, lower price, style, credit, wider selection of goods, and pleasing personality. It appears, therefore, that five out of the six major appeals apply to both types of stores and that while advertising occupies fifth place in the eyes of chain store patrons, it is not one of the six major appeals for independent store patronage. Instead, pleasing personality of the store management or salespeople is given as a major first reason.

While five of the major appeals are the same for both types of stores, they vary considerably in relative importance. Better quality of merchandise is more than twice as important in attracting business to independents than it is in drawing trade to chain stores. Style is of equal significance for both types of stores, while credit has about three times the pulling power for independents as for chains. On the other hand, the price appeal is a little over two and one-half times as powerful a motive in attracting trade to chain stores as it is in attracting business to independent merchants. However, the relative importance of price as a factor in bringing trade to chain stores in the women's ready-to-wear field is less than would appear from a superficial examination of the reasons mentioned first.

As shown in Table 43, the price appeal also ranks high with independent stores, almost 19 out of every 100 patrons giving that as a first reason for buying from those stores. Moreover, almost one-half of the regular chain store customers are *not* primarily interested in price, since they did not give price as a first reason.

Besides, even in the case of the 51 per cent of the consumers who buy regularly from chain stores and who gave lower price as a first reason, there are other reasons which influence their choice of stores. As shown in Appendix H, almost 30 out of every 100 regular chain store patrons consider wider selection of goods as a second reason, 22 regard better quality as a second reason, and 12 refer to style as a factor of second importance. Almost 6 per cent of the chain store customers are secondarily attracted by the store's advertising and another 6 per cent by the pleasing personality of the store management or employees. Of the reasons mentioned second, 16.77 per cent refer to lower price. This was given, of course, by those who do not consider lower price of greatest importance or by those who did not mention lower price as a first reason.

When the reasons mentioned *third* are also included in the analysis, it is quite evident that even chain store customers who gave lower price as a first reason are motivated by other advantages offered by chain stores. The most important motives for chain store patronage that were mentioned third are better quality and wider selection of goods, with 24.45 and 17.31 per cent, respectively.

In view of the foregoing, it would appear that, although price is a powerful patronage motive in the purchase of women's ready-to-wear, it is not so significant as in the purchase of groceries, and is but one of a number of major appeals that are being made by chain stores. It is also evident that consumers are influenced by a number of factors, most of which apply to both chain and independent-store patrons. Aside from price, chain stores will find powerful sales promotional allies in the stocking of up-to-date merchandise, in carrying a well-assorted line of goods, in emphasizing quality, in superior credit accommodations, and in aggressive advertising. Much can also be gained through the employment of a more engaging store personnel.

Analysis of First Reasons for Buying Women's Ready-to-wear from Chain or Independent Stores, by Income Groups.—In order to determine to what extent the choice of a given type of store (chain or independent) is governed by the economic status of the purchaser, an analysis of the first reasons given by the consumers interviewed was made according to income groups and the results are presented in Tables 44 to 47 inclusive.

Of all the 2,387 consumers who expressed a definite preference for either independent stores or chain stores, 30.41 per cent are primarily motivated in their choice of store by lower price. As might be expected, consumers in the lower income groups place more emphasis on the price factor than those more favorably situated from an economic standpoint. In the very low income group price is the most important single factor in choosing the

TABLE 44.—WHY CONSUMERS IN THE VERY LOW INCOME GROUP BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from				Total	
	Chains		Independents			
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	181	62.20	140	34.74	321	46.25
Delivery	2	0.69	3	0.74	5	0.72
Credit	3	1.03	54	13 40	57	8 21
Wider selection of goods	19	6 53	39	9 68	58	8.36
Better quality	23	7.90	52	12 90	75	10.81
Convenient location	5	1.72	15	3 72	20	2 88
Advertising	10	3.44	22	5.46	32	4.61
Pleasing personality	8	2.75	23	5.71	31	4 47
Good store appearance	1	0.34	1	0 25	2	0.29
Sanitary and clean	...	......	1	0.25	1	0.14
Style	36	12.37	41	10.17	77	11.10
Other reasons	3	1.03	12	2.98	15	2.16
Total	291	100.00	403	100.00	694	100 00

type of store from which to buy, this factor being given as a first reason by 46.25 per cent of the persons included in this group. In the low-, medium-, and higher income groups the importance of price diminishes, for in these groups only 27.51 per cent, 20.76 per cent, and 18.85 per cent of the consumers, respectively, select the stores at which to trade primarily because goods are sold at lower prices.

While 694 consumers in the very low income group gave expression to their preferences as to type of store, 291 of them indicated

that they buy most of the goods in women's ready-to-wear from chain stores, and 403 make such purchases regularly from independent merchants. Of consumers in this income group who buy from chains, lower price is given as a first reason by 62.20 per cent, and 34.74 per cent of the consumers in this income group who chiefly patronize independents are motivated by the same reason (see Table 44). This indicates that price is a major consideration in the purchase of women's ready-to-wear by consumers with very little means, regardless of whether such purchases are made from chain stores or independent stores.

Consumers in the very low income group who purchase largely from chain stores are motivated, next to price, by the matter of style. The two major appeals next in rank are better quality and wider selection of goods, although neither of them occupies a very prominent position in the customer's mind when judged on the basis of reasons mentioned first. For consumers in this income group the four reasons above stated account for 89 per cent of all first reasons given for chain store patronage, the remaining 11 per cent of the first reasons being scattered over a number of motives.

Patronage of independent stores in the purchase of women's ready-to-wear is governed principally on the part of consumers in the very low income group by the factors of price, credit, quality, style, and wider assortment of merchandise. As many as 13.40 per cent of the first reasons for buying from these stores fall under the heading of credit, giving that reason second rank in the array of appeals. Only a little over 1 per cent of the first reasons are shown, under the heading credit, for consumers of like income who buy from chains. The matter of style seems to be a little less important to customers of the independents, but quality is much more significant. Of every 100 independent-store patrons drawn from the very low income group about 35 are motivated primarily by lower price, 13 by credit facilities, 13 by quality, 10 by style, and 10 by wider selection of goods.

A larger number of consumers expressing preferences are to be found in the low-income group. Of the 847 consumers in this group, 345, or 40.7 per cent, buy chiefly from chain stores, and 502, or 59.3 per cent, give the bulk of their business to independents. Of the consumers in this group who buy principally from chains, lower price is given as a first reason by only 43.48 per cent

of the persons (see Table 45). The element of style takes on greater importance with consumers in this income group as compared with those on the next lower level of income. Of every 100 regular chain store customers belonging to this income group, 15 give style as a first reason for such patronage, about 11 refer to wider selection of merchandise, and around 8 each refer to advertising, better quality, and credit.

Of the consumers in the low-income group who buy principally from independents, only 16.53 per cent of the first reasons given refer to lower price, a fact which gives the matter of price third

TABLE 45.—WHY CONSUMERS IN THE LOW-INCOME GROUP BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from				Total	
	Chains		Independents			
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	150	43.48	83	16.53	233	27.51
Delivery	2	0.58	5	0.99	7	0.83
Credit	27	7.83	78	15.54	105	12.40
Wider selection of goods	37	10.72	60	11.95	97	11.45
Better quality	29	8.40	96	19.12	125	14.76
Convenient location	6	1.74	18	3.59	24	2.83
Advertising	29	8.41	15	2.99	44	5.19
Pleasing personality	9	2.61	34	6.77	43	5.08
Good store appearance	1	0.29	4	0 80	5	0.59
Sanitary and clean	1	0.29	1	0.20	2	0.23
Style	52	15.07	90	17.93	142	16.77
Other reasons	2	0.58	18	3.59	20	2.36
Total	345	100.00	502	100.00	847	100.00

rank. It is superseded by the element of quality, followed by the style factor, and credit. As compared to the appeals made by chain stores, lower price is only a little over one-third as important; advertising is also one-third as powerful; style is somewhat more prominent; and pleasing personality attracts more than twice the proportion of customers.

A general tendency may be discerned for lower price as a patronage appeal to become less important as the income of the consumer increases. This is as might naturally be expected, but it does not necessarily hold for those in the higher income groups who largely buy from chain stores. Thus, of the 182 chain store customers in the medium-income group, 86, or 47.25 per cent, give lower price as a first reason (see Table 46). When it

TABLE 46.—WHY CONSUMERS IN THE MEDIUM-INCOME GROUP BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from				Total	
	Chains		Independents			
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	86	47.25	30	10.57	136	20.76
Delivery	...	......	6	1.27	6	0.92
Credit	9	4.94	58	12.26	67	10.23
Wider selection of goods	15	8.24	55	11.63	70	10.69
Better quality	15	8.24	103	21.78	118	18 01
Convenient location	2	1.10	15	3.17	17	2.60
Advertising	7	3.85	8	1.69	15	2.29
Pleasing personality	5	2.75	41	8.67	46	7.02
Good store appearance	...	......	6	1.27	6	0.92
Style	38	20.88	86	18.18	124	18.93
Other reasons	5	2.75	44	9 30	49	7.63
Total	182	100.00	452	100 00	654	100.00

is remembered, however, that only 27.9 per cent of the consumers in this income group buy regularly from chain stores the significance of the proportion of consumers in this group who are primarily interested in price is greatly diminished. As a matter of fact, the number of consumers in this and the next higher income class who are motivated principally by lower prices is so small, as compared to the total included in the groups, that they may well be regarded as belonging to the species normally referred to as "bargain hunters."

Chain store patrons in this income group are motivated, next to lower price as a first reason, by style, quality, and wider selection of goods. Judged by the first reasons given, the principal patronage appeals of independent stores which attract consumers in the medium-income group are better quality, style, credit, wider selection of goods, and lower price. As compared with the appeals made by chain stores, those of the independents are as follows: (*a*) price is a little more than one-fifth as important; (*b*) credit is about 2½ times as powerful; (*c*) wider assortment attracts proportionately a little less than one-third more customers; (*d*) better quality is more than 2½ times as potent; (*e*) advertising is one-half as forceful; (*f*) pleasing personality is about three times as significant a patronage appeal; and (*g*) style is somewhat under that of chain stores in trade-pulling power.

Of the 191 consumers included in the higher-income group, only 18.9 per cent buy the bulk of their requirements in women's ready-to-wear from chain stores. With this number, however, price seems to be an important factor, 52.78 per cent claiming that as a first reason (see Table 47). Style and quality are of about equal importance to chain store patrons in this income group, each claiming the same number of first reasons. The total number of chain store patrons included in this group, while representative of conditions, is too small to justify conclusions or elaborate explanations.

Outstanding in importance as a patronage appeal made by independent stores to customers in the higher income group is the matter of quality. Of all first reasons given by such customers, 30.32 per cent refer to better quality. Next in importance is style, with 16.77 per cent of all the first reasons. Credit, probably used more as a convenience than a necessity, comes third in rank; lower price is fourth, and wider selection of goods is fifth.

It is evident from the foregoing analysis that when *all* consumers are considered there is a distinct inverse relation between the size of income and the importance of price as a patronage appeal. Of all consumers expressing preference for either chain stores or independents, 30.41 per cent give lower price as a first reason. For the consumers in the very low income group, however, 46.25 per cent give lower price as a first reason. The importance of this factor then diminishes with increases in income,

so that it figures as a first reason for only 27.51 per cent of the consumers in the low-income group, for 20.76 per cent of the consumers in the medium-income group, and for 18.85 per cent of the consumers in the higher income group. However, for consumers who buy women's ready-to-wear from chain stores, prices are the most important single reason in all four income

TABLE 47.—WHY CONSUMERS IN THE HIGHER-INCOME GROUP BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAIN OR INDEPENDENT STORES, ANALYZED BY REASON MENTIONED FIRST

Reason	First reason for buying from				Total	
	Chains		Independents			
	Number of consumers	% of total	Number of consumers	% of total	Number of consumers	% of total
Lower price	19	52.78	17	10 97	36	18 85
Delivery	1	2 78	2	1 29	3	1 57
Credit	..	. .	20	12 90	20	10.47
Wider selection of goods	1	2.78	15	9 68	16	8 38
Better quality	6	16 66	47	30 32	53	27.75
Convenient location	1	2.78	5	3.23	6	3 14
Advertising	2	5.55	...	......	2	1.05
Pleasing personality	..	......	9	5.81	9	4.71
Good store appearance						
Sanitary and clean						
Style	6	16.67	26	16.77	32	16 75
Other reasons	..	. . .	14	9.03	14	7 33
Total	36	100.00	155	100.00	191	100.00

groups, although it tends to become relatively less important for consumers enjoying larger incomes. This type of reason accounts for 62.20 per cent of the first reasons given by chain store customers in the very low income group, 43.48 per cent in the low-income group, 47.25 per cent in the medium-income group, and 52.78 per cent in the higher income group.

It is interesting to note that of the consumers in the very low income group who are primarily interested in price 43.61 per cent trade with independent merchants. Similar percentages for the

other income groups, are 35.62, 36.76, and 47.22 for the low-, medium-, and higher income groups, respectively. Furthermore, while slightly over one-half of the consumers who buy regularly from chain stores are primarily motivated by lower prices, only 60.04 per cent of all consumers who are primarily interested in price trade at chain stores.

Next to lower prices, style and better quality are the most important reasons. In all income groups, 15.71 per cent of these shoppers give style as their reason for merchant preference, and 15.54 per cent give better quality. The influence of these factors is greater in the other groups than in the very low income group. In the latter, 10.81 per cent base their preferences on better quality, while 14.76 per cent, 18.01 per cent and 27.75 per cent of the low-, medium-, and higher income groups, respectively, are motivated by better quality. Style influences 11.10 per cent of the very low, 16.77 per cent of the low-, 18.93 per cent of the medium-, and 16.75 per cent of the higher income groups.

Preference for independent merchants over chain stores is shown by consumers who desire credit accommodations, better quality, or style. Of those selecting stores for credit facilities, 86.32 per cent patronize independent establishments; 80.32 per cent of those motivated by better quality trade with independent merchants; and so do 64.80 per cent of those influenced by style.

The credit factor seems to be most important for consumers in the low-income group in dealings with both chain stores and independent merchants. Credit as a first reason for buying from chain stores is of little importance with consumers in the very low income group, probably because such consumers do not generally qualify for this accommodation. Credit is also an important factor in the purchase of goods by persons in the medium-income group, probably more as a convenience than a necessity, and the same applies to consumers in the higher income group.

Summary.—From the data collected in this survey it is evident that no single motive can be said to dominate the consumer's choice of a given type of store from which to buy his goods. Furthermore, the motives vary with the line of merchandise and with the income status of the purchaser. Above all, it must be remembered that while price is an important factor in attracting trade to a chain store it is but one of many factors and is greatly

outweighed in the consumer's mind by other appeals. Chain stores themselves have recognized this point in the past, as evidenced from some of their own preachings. In an address delivered several years ago by the then executive secretary of the National Chain Store Association, the following principles of success were laid down:[1]

1. A retail store must be well located—must have ready access to consumers.
2. The store must be attractive in its exterior and interior design, and must constitute a happy trading place for its customers.
3. It must maintain a steady supply of adequate stocks of good and salable merchandise.
4. The factor of service must be carefully weighed and measured in relation to the needs and demands of customers and the requirements of competition.
5. The relations of employees to consumers must be carefully studied and intelligently disciplined and developed.
6. Good management, which suggests the proper correlation and direction of every department of the business, must be present.
7. Prices must be reasonable.

It is significant that in the paper referred to above the price factor was but one of seven principles enunciated and was given last place rather than first. Again, in the June, 1931, issue of *Chain Store Progress* a tabulation is presented, entitled "Why Customers Quit," in which the following array of reasons was given with the percentages of "quits" that each accounted for: indifference of salespeople, 9 per cent; haughtiness of salespeople, 7 per cent; over-insistence of salespeople, 6 per cent; misrepresentation of goods, 5 per cent; ignorance of merchandise, 3 per cent; delays in service, 10 per cent; errors, 7 per cent; tricky methods, 6 per cent; attempted substitution, 6 per cent; reluctance to exchange goods, 4 per cent; overcharging, 14 per cent; poor arrangement or appearance of store, 6 per cent. Here, again, the price factor is only one of the reasons for quitting and is less important than the faults of the sales personnel.

All of this suggests the possibility that both chain stores and independents may profit considerably if they pay somewhat less attention to price as a patronage appeal and more to other fac-

[1] LYONS, R. W., "The Business Principles Underlying Chain Store Development," *Chain Store Progress*, May, 1929.

tors. Much trade can, no doubt, be attracted on a competitive basis through the following: more convenient store locations; hiring more engaging employees; stocking the stores with a wider assortment of goods; making more frequent quality appeals; improvements in salesmanship; continued straightforward and honest dealings with customers; maintaining clean and attractive stores; and the application of other sound merchandising principles.

CHAPTER XIII

ECONOMIC AND BUSINESS EFFECTS OF CHAIN STORES

Any institution that has made the rapid progress recorded by the chains in this country is bound to produce broad and far-reaching consequences. Growth from comparative obscurity to a position of commanding influence in the distributive mechanism cannot but result in fundamental disturbances and readjustments throughout the economic and social order. Some of the effects produced are highly beneficial while others are detrimental or socially undesirable.

In order to obtain a clearer understanding of the chain store problem, the effects of chain stores have been divided into four types—economic, business, social, and political. In general, it would seem that the effects of an economic or business nature have proved to be largely beneficial, whereas many of the social and political effects tended to be contrary to the public good. In some cases the distinctions between these types of effects are undoubtedly on the borderline and indeed shadowy. It is believed, nevertheless, that such a classification is necessary to an intelligent treatment of the subject. The present chapter is concerned with a discussion of the economic and business effects and the chapter that follows is devoted to a consideration of the social and political influences.

The economic effects of chain stores are those influences directly or indirectly attributable to the rise and growth of chains which tend to modify our economic life and structure. They refer to the effects upon our producing and distributing system in the way of fundamental and substantial alterations. Business effects, on the other hand, relate to changes or developments in the characteristic methods and techniques of doing business within a particular enterprise or industry and trade. Stated otherwise, the business effects differ from the economic in that they do not alter or substantially modify the basic elements of our economic system but merely affect the manner of conducting

or doing business and the internal functioning of the business organization.

ECONOMIC EFFECTS OF CHAIN STORES

Chain stores are alleged to have influenced our economic system in a number of significant ways. An analysis of the allegations, however, discloses that many of them are unfounded, whether they are for chains or against them. Furthermore, even those which possess a certain measure of validity vary considerably in their influence. Unfortunately, very little statistical evidence is now available for the measuring of the extent of influence exerted by the different factors. Consequently, much of the discussion that follows is based largely on logic and often is a matter of sheer opinion and judgment.

Consumer Price-consciousness.—Chain stores are probably more responsible for the present consumer price-consciousness than any other single factor. Emphasis on price has always been an integral part of their merchandising policy and this constant pounding on price through various appeals has had its effect. As a result, the average buyer is now quite aware of price as well as of the quality which that price represents. He is intensely interested in comparing the prices and values offered by competing stores and the tendency to shop around has been greatly accentuated. Moreover, as shown in Chap. X, this desire to compare and shop for prices is not limited to the consumers in the lower income brackets but has also become characteristic of the higher income classes. To the extent that the emphasis on price has resulted in more careful buying on the part of consumers and to the degree that it has encouraged business men to offer better values, society has been the beneficiary. There is no denying that chain stores have fostered a sounder consumer attitude in this respect than prevailed before their advent.

Lower Wage Standards.—Just what influence chain stores have exerted on wage standards is a question of a distinctly controversial nature. It is often charged that chain stores pay lower wages than competing retailers, and that the wages paid do not allow workers to maintain a decent standard of living. The chains, on the other hand, counter by claiming that actually they pay higher wages than their independent competitors. It would seem that this controversy could be settled definitely by a simple

analysis of the facts. The subject, however, has never been fully investigated. The Federal Trade Commission delved into it; the Census accumulated some statistics; and several independent investigators have gathered data; but in no case has a really comprehensive study been made of this important phase of the chain store problem.

As shown in Chap. IV, the Federal Trade Commission found that chain stores paid lower wages to selling employees than did competing independents. The data in Table 48 show the comparative wages paid by several types of retailing and the advantage seems to be in favor of the independent stores in every kind of business studied. The data appear to substantiate the often repeated charge of chain foes that chain store employees are paid less than independent employees for the same type of work. There are, however, certain weaknesses in the Commission's data which make it necessary to proceed with caution when drawing conclusions. The sample for independents is hardly adequate and it is not sufficiently representative. Only 1,549 independent stores employing 3,933 persons are represented as

TABLE 48.—AVERAGE WEEKLY WAGES OF FULL-TIME INDEPENDENT AND CHAIN STORE SELLING EMPLOYEES, BY KIND OF BUSINESS

Kind of business	Number of stores		Number of store selling employees		Average weekly wage	
	Independent	Chain	Independent	Chain	Independent	Chain
Grocery	226	10,073	423	11,609	$24.91	$20.40
Grocery and meat	327	33,779	801	45,529	25.90	18.98
Drug	671	2,393	1,419	16,330	30.07	25.07
Tobacco	54	1,640	78	3,309	25.52	23.77
Ready-to-wear	88	2,047	625	9,732	31.11	26.77
Shoes	50	2,934	136	6,969	33.48	27.83
Dry goods and apparel	32	2,343	238	13,109	25.06	19.61
Hardware	101	120	213	448	28.77	28.12
Weighted average	1,549	55,329	3,933	107,035	28.48	21.61

Source: Federal Trade Commission, "Chain Stores—Chain Store Wages," p. 19, U.S. Government Printing Office, Washington, 1933.

compared to 55,329 chain stores employing 107,035 persons. The disparity in size of the sample might well occasion a distorted picture, but an analysis of the *kind* of stores may result in even greater misinterpretation. The average annual sales volume per store for those included in the study was hardly typical of independent retailers in their respective lines of business. The grocery sales, for example, were much greater than the average grocery sales per store as revealed by the 1929 Census. Furthermore, all of the independent stores used for this comparison were located in cities of more than 25,000 population, whereas a number of the chain units were located in communities of less than 25,000[1]—an important factor when comparing wage scales.

But despite the shortcomings of the Commission's study, it is probably the best that has been made to date. Even allowing for certain inadequacies, it tends to show that chain stores are paying their employees less than independent merchants pay for similar work.

Several other studies lead to the same general conclusion as the Federal Trade Commission study. One of them covering about the same period as in the Federal Trade Commission investigation revealed that chain store wages were approximately 20 per cent under wages paid by independent merchants.[2] In a later study the Bureau of Labor Statistics found that full-time selling clerks in grocery and grocery and meat chains received an average of three dollars per week less than the same type clerks employed in independent stores.[3] In ready-to-wear, dry goods and apparel, department store, and general merchandise chains the average wage for full-time sales clerks was $1.70 less per week than in comparable independent stores.

Chain stores deny that they pay lower wages and point to the census figures which apparently substantiate their position. These figures, however, do not give a true picture of the situation as the pay-roll data include the salaries of chain store managers but do not include the salaries of independent store owners.

[1] Federal Trade Commission, "Chain Stores—Chain Store Wages," p. 18, U.S. Government Printing Office, Washington, 1933.

[2] Ernst, Edwin G., and Hartl, Emil M., "Chain Management and Labor," *The Nation*, Nov. 26, 1930, pp. 574–576.

[3] "Comparative Wages in Chain and Independent Stores," *Monthly Labor Review*, October, 1933, pp. 943–945 (U.S. Government Printing Office, Washington).

Before making any comparison, adjustments must be made for this discrepancy. Furthermore, the census figures include a multitude of small stores that can only be classed as retailers by a liberal interpretation of the term retail store. The Census of 1933 shows that more than 65 per cent of the independent stores had annual sales of less than $5,000 and, in 1935, 44½ per cent of the independent stores sold less than $5,000 worth of goods during the year. Fair comparisons cannot be made without due allowance for these factors, and when such allowances are made, even census figures show that independent store employees are paid more than chain store employees.

Any attempt to settle the question of comparative wages paid by chain and independent stores by resorting to *average* figures savors of the unscientific, unless the averages refer to comparable groups. Few of the available wage statistics contain data of that nature. It would appear that the true relationship between the wages paid by local merchants and chain store organizations can only be approximated until a comprehensive study of the earnings of the two groups of workers under substantially similar conditions is undertaken.

However, from the information that is available at the present time, it would appear that chain stores do pay lower wages than independent stores for the same type of work, though the evidence is not altogether conclusive. A quotation from an article of one of the country's most prominent chain store operators appears to substantiate this view. Mr. J. C. Penney stated that, "the low wage theory as applied to chain stores is just as dangerous as the low wage theory in manufacturing. It can not long survive for intelligent chains, which pay high wages, will put the others out of business unless they change to modern methods."[1]

To the extent that chain stores are guilty of paying lower wages than competing independents they are producing an anti-social effect. From the previous analyses of chain store prices, costs, and profits it would appear that they have no legitimate reason for paying lower wages than paid by other merchants.

Although it may be true that chain stores are paying lower wages than independents, it does not follow that they are paying less than other kinds of businesses. The Federal Trade Com-

[1] Penney, J. C., and Crowther, Samuel, "The Community and the Chain Store," *Saturday Evening Post*, Feb. 22, 1930, pp. 10–11.

mission made a tabulation of comparative wages in different businesses on the basis of their own studies and from data secured from the Bureau of Labor Statistics. The results shown in Table 49 reveal that chain store wages compare favorably with those paid by other employers. The dangers of comparing wages in different industries are many, but some generalizations may be found. In the case at hand it appears that chain stores pay wages that are higher than those paid in industries which employ a large proportion of women, as in hotels and in canning and preserving, but are lower than in most industries, and much below those paid by independent merchants.

TABLE 49.—WAGES FOR SPECIFIED TYPES OF BUSINESS AND INDUSTRY

Industry or Trade	Average Weekly Wage
Manufacturing	$22 48
Anthracite mining	28.41
Bituminous mining	19.95
Public utilities	30.09
Hotels	16.47
Canning and preserving	16.74
Wholesale trade	30 79
Retail trade (total)	24.05
Chains (without managers)	20.48
Chains (including managers)	25.49
Independents (selling employees)	23.45

Source: Federal Trade Commission, "Chain Stores—Chain Store Wages," p. 23, U.S. Government Printing office, Washington, 1933.

Effect on Employment.—It has been repeatedly asserted that chain stores create a certain amount of unemployment by curtailing services and by obviating the necessity for manufacturers' and wholesalers' salesmen. Naturally, the chains do not have to employ truck drivers to deliver to consumers, bookkeepers in the individual stores, or collectors, if they do not render credit and delivery services to their customers, nor is it necessary for them to employ salesmen to contact their individual units.

It would appear that although certain employees are displaced through the curtailment of service, actually total employment is not necessarily reduced, providing the resultant savings are passed on to the consumer. This charge is akin to that which claims that automatic machinery creates unemployment, and it is too controversial a subject to be discussed at length at this point. Economists generally agree that although new develop-

ments and more efficient methods displace workers, actually little unemployment results from this process. As long as the elimination of these services enables industry to reduce prices, consumers are able to spend their savings for other types of goods so that the total employment is not necessarily decreased. Although employment in the retail field might be reduced, workers would have to be employed to make the additional goods bought with the savings. All of this is the long-run effect. In the short run, however, it does result in the loss of jobs and less employment.

One particularly disturbing effect that chain stores have on employment results from their insistence on young employees. It may be generally observed that chain store employees are predominantly youthful, and men or women over 45 years of age find that their opportunities are distinctly limited in large-scale retailing organizations. Some companies refuse to hire persons over this age limit while others even go so far as to weed out the older workers, the assumption being that youth is essential to merchandising efficiency. While employers have the legal right to utilize only those who fit into their business methods, they are helping to create a perplexing economic problem by thrusting the responsibility for older employees upon society.

A retail worker who has reached the age when his serviceability to chain stores has diminished, finds it acutely difficult to locate other uses for his ability. If unable to retire, only three possibilities are open to him. He may find employment in other lines of endeavor, although here too his opportunities are limited since industry is sending thousands of others on the same quest. He may secure employment with independent merchants, but they too will probably prefer a younger man. As a last resort he may desire to enter the retail business on his own, but the competition from chain stores and other distributors reduces his chances for success even in that field. His predicament is a major economic problem of our present era of big business. It is a situation that is replete with lamentable economic consequences for society.

Shorter Channels of Distribution.—Prior to the extensive development of the chain store system, the typical flow of merchandise was from the manufacturer to the wholesaler to the retailer. In many cases, goods passed through additional middlemen such as brokers, manufacturers' agents, and selling

agents. Thus a channel might consist of a manufacturer, broker, wholesaler and retailer, or of various combinations of these or other middlemen. Each of these middlemen grew up because of a need for specialized service—each had a function to perform.

The chain system has not eliminated the *functions* of these middlemen, but it has integrated them into one organization, although the bulk of goods still passes through the older or more orthodox channels. This integration shortened the channel through which goods move from production to consumption. In the chain system the channel is usually from manufacturer to chain store warehouse to the retail unit, or it may be from the manufacturer to the retail unit direct. This tends to shorten the time it takes for goods to flow through the channel of distribution, and it reduces the number of hands through which merchandise must pass in reaching the consumer.

This change in the channel of distribution is beneficial to the consumer if it either reduces the cost of goods or brings them to him in a fresher and more desirable condition; it is probable that this integration has accomplished both objectives, at least in part. As shown in Chaps. IV and IX, certain savings have been effected by chains over their competitors, resulting in narrower gross margins. Part of these economies is being passed on to consumers, as shown in Chaps VII and VIII. Furthermore, goods frequently reach the consumer more rapidly through the chain system than through the wholesaler-retailer route. Chains usually enjoy a more rapid stock turnover, and this change has certainly benefited the consuming public through fresher merchandise at more reasonable prices.

From this discussion it must not be inferred that a shortening in the channel of distribution inevitably results in lower costs of operation. Since functions of middlemen cannot normally be altogether eliminated, integration through the chain method effects economies only when the chain operates efficiently. It should be noted further that many of the economies have come about more through a curtailment of services and through large-scale operation than by short-circuiting middlemen; also through a shifting of functions to the manufacturer.

The Formation of Voluntary Chains.—In order to compete with the centralized chain systems independent merchants

attempted to reinforce their buying power and increase their efficiency through cooperative action. Voluntary chains have been utilized to obtain some of the advantages of the corporate chain at the same time retaining the advantages inherent in individual or independent ownership of the store.

Starting in the grocery field the voluntary chain movement spread rapidly and at the present time there are more grocery stores in the so-called "voluntary chain" movement than there are corporate grocery chain stores.[1] The movement is spreading to other fields and recently voluntary chains were formed in drugs, hardware, and clothing. The substitution of collective for individual action among independent retailers is largely the result of the competition furnished by the corporate chains. Thus the latter have indirectly contributed to increased merchandising efficiency insofar as the voluntary chain movement has brought it about.

Stabilizing Effect on Business.—A leading historian stated that chains "introduce the word stabilization into a troubled retail business and what is more important the practice of stabilization by careful management."[2] This is not altogether true, for wholesalers have long before followed similar practices. Chains nevertheless exercised a profound influence in this direction. Being a form of large-scale retailing, the chains place orders well in advance so that manufacturers are able to stabilize their production. They also stabilize business in general by being able to weather financial crises through their superior management and financial strength. In that way they prevent the market turmoil which follows the widespread bankruptcy of the smaller businesses occurring during years of business stress.

Another way in which the chains introduce stability in business is through their ability to pay regular rents. Although during the depression which began in 1929 a number of chains were forced to readjust their leases, landlords who had chain tenants were much more fortunate than those with independent tenants. There is little doubt that a real estate owner would much prefer

[1] The "1936 Chain Store Manual" states that there were 802 voluntary chain grocery and food groups representing 107,141 individually owned retail outlets which are estimated to handle over one-third of the food and grocery business in the United States today.

[2] BEARD, CHARLES A., "Planning and the Chain Store," *New Republic*, Nov. 30, 1932, p. 66.

to lease his property to a large chain organization than to the average local business man. The skilled management and greater financial resources of the corporate chain make the landlord feel more certain that he will collect his rentals.

There certainly is need for more stability in business, and, insofar as the chains tend to increase it, the effect is beneficial to business and society as a whole.

Larger Trading Areas of Smaller Communities.—There can be little doubt but that chains have materially affected the business of the small rural towns in which they have opened units. In many cases the opening of a store by a prominent chain system has helped to recreate the trade of those towns and to keep it from going to the larger cities. Consumers like to patronize the trade centers if they have an opportunity to purchase goods of a quality and a price that compare with those offered in the larger cities. The chain store in a small town provides price competition which attracts the price-conscious farmer. It usually offers a wider selection of merchandise than many of the older general stores. It provides more opportunity for shopping for the desired type, quality, or price of goods. It has introduced better business and merchandising methods to these communities. These qualities contribute to the trade-pulling power for the entire community. Many towns owe their importance as trading centers to the chain stores that have chosen to locate within their boundaries.

Wider Assortment of Goods.—Although chain stores usually concentrate their attention on a few lines, they often give the consumer an opportunity to buy kinds and varieties of merchandise which he cannot secure from other retailers. An investigation would probably show that chains not only have stimulated the distribution of a greater assortment of goods to the consumer but today, in many cases, offer the widest selection of goods to the consumer within their price range. This has come about first through a careful study of buying demands and habits which enabled chains to establish stores that could supply the exact needs of their customers. Chains do not attempt to carry every possible item but handle a variety of merchandise and a wide range of quality and prices of those items which are in greatest demand. In addition they offer a wide selection of seasonal goods at appropriate times.

The second way in which the chains offer a wider selection of goods is through the stimulus which they have given to large-scale production. Through their cooperation with manufacturers, many items are now brought to the consumer which otherwise would never have been developed at a price which the average person could pay. The five-and-ten-cent stores are notably active in this direction. They developed hundreds of items which now can be sold within their price limits but which formerly sold at considerably higher prices.

Surely, merchandising institutions that offer the consumer a greater variety and bring to him articles which he otherwise would not have been able to purchase are rendering a real economic service. The chains deserve much credit for doing just that.

Absentee Ownership and Control.—Large-scale business is characteristic of our present economic system and, of course, chain store merchandising is a phase of this development. It has been responsible for certain economies for the consumer, but it has also tended to remove the control and ownership of the retail stores from the particular community in which they are located. Absentee ownership and control are characteristic of a goodly proportion of our chain stores. This situation led to many bitter attacks upon chains by local business men who object to having the local business dominated by outsiders. It is contended that the absentee managers are not interested in furthering the interest of the local community.

It was inevitable that the ownership and control of large business enterprises should be concentrated in a few centers. This resulted in certain operating efficiencies, but there can be little doubt that these economies have been paid for in a loss of community personality. As long as chain stores are a minor factor in the life of any town, this loss will probably not be great, but as chain stores absorb more of an area's retail business, the results become more serious.

Reduction in Distribution Waste.—From the chain store point of view, their most important contribution to our economic development has been the reduction of distribution costs. Chain stores more than any other single factor in the past generation have been responsible for making reductions in the costs of distributing merchandise from producer to consumer.

Our marketing system has been repeatedly attacked for the so-called excessive cost of distribution. Engineers and economists point out the savings effected in production and in turn point with scorn to the increased costs of distribution, both in absolute amounts and relative to the costs of production. Undoubtedly the outstanding problem of our present distribution system concerns the ways and means of reducing the margin between what the producer, on the one hand, gets for his product and what the consumer, on the other, pays for that product. It is freely admitted that this margin contains a considerable amount of waste, and it is to the credit of the chains that they have done much to reduce it. We know that many of the smaller independent merchants are notoriously inefficient. Many operate businesses with total sales of less than $10,000. According to the 1935 Census of Distribution more than 44 per cent of the independent merchants have an annual volume of less than $5,000, 64 per cent have annual sales of less than $10,000, and more than 81 per cent have sales of less than $20,000 per year.[1] Naturally, retailing carried on on this scale is bound to result in increased costs not only for the retailer but also for the wholesaler who must fill the order, make the delivery, and invoice many small sales.

Chains have done much to correct such wasteful situations as these. Normally chains do not attempt to operate units which do not gross reasonable annual volume. In the chain grocery business it is felt that a store with annual sales less than $40,000 should be closed out. At the present time there is a distinct tendency to raise this limit even higher. Certain grocery chains are now averaging more than $100,000 annual sales per store.[2]

To the extent that the chain stores have reduced operating costs they must certainly be considered a boon to society, and it has been shown in Chap. IX that they have effected material economies in most lines of retailing. In helping reduce the cost of distribution the chains are contributing to our material prosperity, provided that the reduction in distribution costs is passed on to

[1] Census of Business: 1935, Retail Distribution, Vol. VI, p. 156, U.S. Department of Commerce, Washington, 1937.

[2] The Safeway Stores in 1936 had average annual sales of $102,723 for each of its 3,370 units.

consumers, and provided further that the economies do not result from a shifting of functions back to the manufacturer or to the consumer.

Lower Prices to Consumers.—In Chaps. VII and VIII it was shown that chain stores materially undersell their independent competitors. In the case of groceries it approximates 5 per cent, whereas in the drug field and others it probably runs considerably higher. Practically all of the comparative-price surveys that have been made to date point conclusively to underselling on the part of the chains. Since this point has been fully discussed in the preceding chapters, it is only necessary to point out here that it is an important economic effect of chain stores for which they deserve a measure of credit.

A Motivating Force in Distribution Progress.—In the past 20 years the chain store has probably been the most important motivating force in retailing progress. New and improved methods of merchandising inaugurated by chain stores have done much to stimulate retail advance. Alert merchants soon found that they could adapt many of the chain store practices to their own business with beneficial results. Obviously, many of the chain store advantages can be attained by smaller merchants. Few are exclusive possessions of multiple-store selling. Convenient and pleasant stores, adequate inventories, clean, fresh merchandise can all be featured by the independent merchants to the benefit of consumers.

Chain stores have been a potent competitive force. In order to compete with them, independent merchants were forced to modernize their stores, to use more effective advertising, and to apply better business methods generally. The independent merchant who has been able to withstand the chain store competition has done so through increased efficiency and initiative. He has developed superservice, practiced cooperative buying, and curtailed his costs to make his prices comparable to those in effect in chain stores. The independents who lacked the initiative to keep in step were quite generally left by the wayside.

Competition has always been regarded as good for the country, and to the extent that chain store competition has been fair, it certainly has been beneficial. It has helped to bring about lower prices, fresher merchandise, more attractive stores, and better merchandising methods in retailing.

Chain Stores Exhibit Monopolistic Tendencies.—The growing importance of chain stores leads many to fear that they will some day constitute a monopoly. It has been said that chain stores will drive individual merchants out of business and gain a monopoly so that, by agreement among them, the business could be divided and prices controlled. As Senator Brookhart of Iowa stated in an address before the Institute of Public Affairs at the University of Virginia on July 1931, "The growth of the chain store is perhaps the most startling development of monopoly in our country at the present moment."

Those who seek to defend the chains claim that the dangers of chain store monopolies are much more imaginary than real. It is inconceivable, they claim, for monopolistic tendencies to develop in the merchandising field. They point to the fact that in practically every kind of retail business the independent stores outnumber the chain stores and also do a larger volume of business. They also state that the competition which chain stores furnish to each other removes the opportunity for control of retail distribution. It is said that even though the natural restrictions of competition did not exist, chain stores would still be prevented from establishing monopolies by governmental restrictions such as the Sherman Anti-Trust Law, the Clayton Act, and the Federal Trade Commission Act.

There is undoubtedly considerable truth in the chain store defense, but at the same time an impartial observer would find that, even though chains do not at the present time constitute a real monopoly, there is a danger that they might develop monopolistic tendencies. Even now they occupy semi-monopolistic positions in some instances. The following quotations from the Federal Trade Commission investigation substantiate this view:

> . . . chain-store systems as possible monopolies *under the Sherman Act*. . . . The competition which they furnish to each other, supplemented by that of independent stores, would seem to negative monopoly *by any individual chain*. . . . A study of the extent to which chain-store companies have invaded the general field of retail distribution of commodities does not indicate a monopolization of that field, *taken as a whole*. . . . A much stronger showing might be made from the standpoint of particular chain companies and *their percentage of control* in the *particular line of commodity* distribution of which each is a part. It is possible, also, *that a monopolistic condition might be established in a given section of the*

country and not for the country as a whole. . . . The broad prohibition of the Sherman Law against monopoly has been narrowed by interpretation of the courts to mean that only *actual as distinguished from potential,* monopoly is *unlawful,* and that the mere possession of monopolistic power, in the absence of overt acts indicating an illegal use thereof, is not a violation of this statute.[1]

It is evident that chain stores may possibly secure a partial monopoly in a given section of the country and not in the country as a whole. Since chains are concentrated in the larger cities, they exercise more influence in urban centers. As was shown in an earlier chapter, in certain large cities the chains have virtually driven independent merchants out of some lines of business. In Cleveland, Ohio, for example, chain food stores do more than 71 per cent of the total business in that line. In the state of Pennsylvania two chain store companies, the Great Atlantic & Pacific Tea Company and the American Stores Company, do approximately 40 per cent of all the grocery business of that state. In the variety store field the chains do more than 90 per cent of the total business of that kind, and in many large cities they do practically 100 per cent of the total. When it is considered that chain stores are clustered in the large cities, it is not difficult to prove the existence of monopolistic power.

BUSINESS EFFECTS OF CHAIN STORES

Business effects refer to those changes or developments which modify the characteristic methods and technique of doing business within a particular enterprise or within an industry or trade. In the following discussion these effects are viewed largely from the angle of business men rather than from the standpoint of society as a whole. For that reason, there will be some repetition of the facts discussed in preceding chapters.

Loss Leaders.—Although chain stores deny that they sell popular brands at a loss, it is a matter of common knowledge that they have made extensive use of reduced prices on nationally branded merchandise in order to encourage consumers to patronize their stores. The Federal Trade Commission found that chain stores generally practice "leader" selling, and almost 12

[1] Federal Trade Commission, "Chain Store Investigation, Final Report," p. 19, U.S. Government Printing Office, Washington, 1935. The italics are those of the authors for purposes of emphasis.

per cent of the reporting chains admitted selling some articles even below net purchase cost.[1] No doubt a number of other items were also sold below their normal selling prices. This practice on the part of chains has encouraged independent merchants to follow such leadership. Certain price-cutting independents feature "leader-selling" as effectively as do chain stores.

It would seem that this practice on the part of either the chains or the independents is justified so long as the reduced price reflects honest differences in cost. If the practice, however, is used to entice consumers to visit these stores with the expectation of finding all prices reduced similarly, it is hardly an ethical procedure. Playing on the gullibility of the public by creating the impression that bargains are obtainable on all goods in stock, when such is not the case, may well be classed as an unfair trade practice. Merchants and wholesalers faced with undue price cutting find it expedient to handle national brands which are not being used as price "footballs" and also to adopt private branding.

It is not intended to discuss at this point the relative merits of loss leaders or price cutting but merely to mention that this practice can largely be traced to chain stores. It is a bit of business strategy that has been used for many years, but it was the chain store which really popularized this method of attracting trade. The responsibility for stimulating price cutting can be laid largely at the foot of chains and other types of large-scale merchandising. The present fair-trade legislation is directed principally at this allegedly pernicious practice (see Chap. XVII).

Curtailed Services.—One practice very widely featured by chain stores is that of selling goods on a cash-and-carry basis. In an effort to cut costs and to give a visible reason to the consumer for price cutting, the chains have very widely curtailed certain services. The elimination of credit and delivery has been an almost universal practice of the grocery chains. Chain drugstores, clothing stores, variety stores, and others have followed suit. In this manner, chains have emphasized the savings which they could then pass on to the consumer. Operating costs have

[1] Federal Trade Commission Investigation, "Chain Stores—Chain Store Leaders and Loss Leaders," p. 20, U.S. Government Printing Office, Washington, 1932.

been reduced as the result, and many consumers do not feel that they have been materially inconvenienced. That the chain stores have effected economies by curtailing services, there is no doubt. As was shown in Chap. IV, it costs more than 2 per cent to offer credit and delivery services to grocery customers, but it must not be supposed that this necessarily gives the non-service chains an opportunity to undersell the independents by this margin. Service independents absorb a portion of this cost themselves.

The elimination of service may or may not be a benefit to society. It permits a certain reduction in prices, but it also increases the inconvenience of the customer in obtaining his merchandise. But whether or not it is a social benefit does not alter the fact that the chain stores have popularized this merchandising feature.

Chains Have Encouraged the One-price Policy.—The old practice of exacting from each customer as much as he would pay has been almost abandoned in present-day retailing. Chain stores have materially aided in changing the condition previously prevalent, although department stores have preceded them in this respect. Patrons know that they all pay the same prices when they enter a chain store, and this encourages independent merchants to follow the same practice. The chain emphasis on price quite generally forces retailers to offer merchandise to customers on a one-price basis. That this practice is distinctly beneficial to consumers as well as to the merchant is generally conceded. All customers are treated alike, and the poor bargainer is not penalized. It facilitates more efficient buying and permits sales emphasis to be placed on the goods rather than on the price. It eliminates bickering, higgling, and browbeating, and consequently removes the stigma under which tradesmen of former ages generally labored. Sales are effected with considerable economy as long as price is taken for granted, and the time of both buyer and seller is saved. One need stretch his imagination but little to appreciate the time that would be consumed in the bargaining process in connection with each of the thousands of retail transactions that are made daily.

Impersonal Atmosphere in the Stores.—Chain merchandisers tend to make retailing a strictly business endeavor and by doing so surround their stores with an impersonal atmosphere. It

apparently is the aim of chain stores to attract the customer, secure his money, and get him out as rapidly as possible. This attitude is hard and mechanical as contrasted to the social and personal service of many independent merchants. Chains felt it expedient to follow this practice since they are not able to emphasize the personal appeal to the same extent as independents. Whether the businesslike atmosphere of chains is more beneficial to the consumer than the personal attitude of the independent stores rests largely with the individual. The fact remains that the store of today is primarily a business enterprise, not a social center.

Wider Uses of Package Goods.—Originally many staples such as rice, sugar, and beans were sold in bulk. They were packaged and weighed at the time of sale. In recent years, however, the chains have seen the advantage of using prepacked goods. They have developed the practice of packaging goods in advance of sale in order to save time and also to give the buyer a more attractive and sanitary container. To the extent that this has been accomplished at no greatly increased cost to the consumer, it has proved beneficial.

Complete Stores.—In the days of the butcher, the baker, and the candlestickmaker the housewife bought meat freshly killed and dressed at the butcher shop, bread at the baker's, and staple groceries at the little corner grocery store, but the chain stores have done much to alter this condition. They have combined the butcher shop, the bakery, and the grocery store into one complete unit to which they have added fresh fruits and vegetables and miscellaneous items. There is a decided tendency among grocery chains to develop complete food markets. For example, more than 75 per cent of the Safeway Stores are complete food markets,[1] and others are rapidly converting their grocery stores into food emporiums.

In the drug trade the department drugstores which are common in the larger cities are primarily a chain development. Adding item after item in an effort to boost volume, chain drugstores, in many cases, have evolved into quasi department stores which are termed for want of a better term—drug department stores. Handling a variety of merchandise such as sporting goods, household utensils, books, and even clothing, in addition to the normal

[1] "Standard Statistics Investment Service, 1935," p. 3106, New York.

drugstore items, these stores are becoming a new type of merchandising institution.

The success of the large corporate chain stores has encouraged independent merchants to follow suit. Independent supermarkets and drug department stores are becoming almost as prominent as chain stores of the same type.

Combination Sales.—Since chains depend upon large sales volume, they find it highly desirable to increase the unit volume of each sale. This is often accomplished through multi-unit and combination sales. The consumer is encouraged to buy more than one unit at a time by offering, for example, one can of tomatoes for 10 cents or three cans for 25 cents. Or the unit of sale is increased by combining several similar items of merchandise at a special price—for example they might feature a box of soap chips plus 10 bars of soap at a reduced price. Independent merchants have found that this chain practice produces extra profit for them.

Chains Have Caused the Independents to Develop Better Business Methods.—In order to meet chain store competition local merchants adopted chain practices in the conduct of their own business. The introduction of more efficient accounting practices, the stimulation of better store layouts, the wide use of scientific store location, the development of inventory control, the emphasis on rapid turnover have all been utilized by independent merchants to their advantage. New standards of service, courtesy, window display and cleanliness can be traceable to the examples set by chain stores. Advertising, pricing, and buying practices have been similarly copied. Chain stores can well be proud of their contribution to the development of better business methods among retail merchants. This is probably the most notable contribution of the chains—the awakening of the independent merchant from his lethargy.

SUMMARY

It is evident that the chains have contributed much to the development of distribution in America. They have been largely responsible for many advances in retailing progress—the stimulation of scientific merchandising, the reduction of distribution wastes, and the development of certain newer types of retailing institutions. But they must be held accountable for certain

economic and business effects that are contrary to the public welfare. It would be difficult to perceive how the local community benefits when it loses the ownership and control of its retailing institutions. Certainly they sacrifice much through the depersonalization of their retail outlets. Nor can it be said that society gains from the tendency for large-scale retailers to pay relatively low wages and to contribute to the unemployment of older workers. But these detrimental effects would seem to be considerably outweighed by the economic and business advantages of chain stores.

CHAPTER XIV

SOCIAL AND POLITICAL EFFECTS OF CHAIN STORES

In addition to affecting profoundly our economic system and business practice, chain stores are also responsible for widespread social and political changes. These latter changes, while more abstract than those discussed in the preceding chapter, have been more influential in arousing popular discussion of the chain store problem.

In order to evaluate the influence of chain stores upon our social and political life it is necessary to define clearly, although perhaps arbitrarily, what is included in each of these categories. The social effects may be defined as the changes in the habits and customs of the mass of our citizens. While at first glance it might seem that this definition conflicts with that of economic effects, yet a more thorough consideration will reveal that each is concerned with a distinctly different phase of human interest or organization.

Political effects may be described as those changes or developments growing out of chain store methods of doing business which involve the additional consideration of the legislative, judicial, or executive branches of the government. More simply stated, anything of a political nature which would not have occurred had chains not existed may be considered as a political effect.

SOCIAL EFFECTS OF CHAIN STORES

Changed Consumer Buying Habits.—Chain stores have done much to alter consumer buying habits. More than any other single factor they are responsible for the present popularity of the cash-and-carry method of buying and for the personal shopping tendencies now so prevalent. Few independents featured this type of service before the chain stores publicized the economies that were thereby effected.

Another consumer buying habit that the chain stores have helped change is related to the farmer's buying tendencies. By

providing the towns in which their units are located with modern stores, fresh seasonal merchandise, and low prices, chain stores tend to attract customers from rural areas. This has been especially true of Montgomery Ward and Sears-Roebuck stores. They have done much to draw the farmers to those communities in which their stores are established.

Sharper Lines of Class Distinction in the United States.—During the past few years, there has been a noticeable growth of class consciousness among the people of the United States. Ample evidence of this is found in the wide popularity of taxes on wealth and the public approval given to legislation which imposes restrictions on big business. The chain store, being a form of big business, and very often owned and controlled by those who live away from the communities in which the stores are located, has frequently been attacked as an anti-social form of enterprise which should be handicapped. They are frequently pictured as devices that "Wall-streeters" use for draining the smaller communities of their wealth. Naturally, this arouses bitterness among the working classes who are made to feel that the chain store owners are exploiting them in order to enjoy a life of luxury and ease. It is no wonder that many people feel that chains should not be allowed to enjoy unhindered the results of fortunate economic opportunity. Measures attacking the chain stores are popular with many persons who see in them an opportunity to penalize those who are receiving disproportionate shares of the national income. It is a feature of the present prevalent attitude of "soaking the rich and powerful."

There is no doubt that a growing class consciousness is detrimental to the best interests of society and though the chain stores are not directly contributing to this attitude, they are accomplishing the same end indirectly. It may all be a natural reaction to the present trend of our economic development but, even so, it is an unhealthy state of affairs. Chains may find it difficult to alter the situation, but undoubtedly an attempt at better public relations would help. It would appear that they could well afford to expend more energy in informing the public of the social values that accrue from large-scale merchandising.

Lessened Individual Opportunity.—When analyzing the effect that chain stores have had on individual initiative, attention is naturally focused on two questions: first, have chain stores

limited the opportunities for ambitious men to engage in business on their own account? Secondly, is it necessary to engage in business as an entrepreneur in order to carve out for oneself a successful business career?

The chain store is accused of turning us into a nation of clerks by depriving individuals of the opportunity of establishing their own businesses and, in that way, impairing individual initiative, since standardized merchandising operations tend to make of employees mere routine workers. Although those favoring chain stores are wont to ridicule such an assertion, it does contain considerable truth. The rapid expansion of chain stores into many types of retailing would appear to be prima facie evidence that there is less opportunity to establish oneself successfully in independent merchandising today than a generation or two ago. Certainly it would be difficult for one to engage profitably in the variety store business in most of our cities. The natural advantages of large-scale merchandisers in that field, coupled with their present virtual monopoly, would make any such venture extremely hazardous. The same situation prevails to a lesser degree in other prominent lines of trade such as the retailing of shoes, groceries, and drugs.

The important factor that lessens an individual's chances for successfully entering the retail field is that chain stores possess certain inherent advantages that place them in a favored position as compared with the independent. The benefits accruing from quantity buying, specialization, spreading of risk, and other characteristics of multiple-store merchandising materially limit an independent merchant's opportunities. To be sure, certain persons can and will make a success in retailing under all circumstances, but the chains are restricting the possibilities for successful operation for the multitude of would-be retailers.

Protagonists of chain stores attempt to refute the validity of the assertion that the opportunities for young men are being limited by chain stores. They point to the fact that there are more independent merchants today than there were in the past. The Census of Distribution is cited as ample proof since it shows that in 1935 there were 1,419,855 independent stores as compared to 1,230,300 in 1929. From these data one must conclude that individuals are establishing their own enterprises and in *absolute* numbers there are more independent stores today than there have

been in the past. There is, however, room for more stores today than ever before on account of the increase in population, the growth of new consumer desires, and the marketing of new types of merchandise. Although independent proprietors might hold their own in absolute numbers, they still may be decreasing in relative importance, especially in certain lines of retailing, and that is exactly what is happening.

It appears to be an entirely proper conclusion that the number of individual retail entrepreneurs would be considerably in excess of the present number if retailing were entirely in the hands of independent merchants. It is only necessary to compare the number of active proprietors and firm members in each type of business to substantiate that assertion. The 1935 Census of Distribution listed 1,447,214 independent proprietors and partners and only 2,702 chain store proprietors or corporate officers. More startling figures are obtained from a glance at the number of variety store proprietors. While less than 10 per cent of the total business of that kind is done by independent stores, there are more than 40 times as many independent entrepreneurs as chain store entrepreneurs. The same type of situation is found in other lines where the chain stores are active.

The contention that chain stores do not tend to limit the opportunities for individuals to establish businesses of their own is based on the assumption that chain stores create their own business and do not take from independent merchants any sales volume that the latter would receive. Any such assumption must necessarily be unsound. It is obvious that sales in the grocery and other convenience goods fields cannot be expanded sufficiently by chain store sales promotional activities to compensate independent merchants for the share of that business which the chains have absorbed. The fact remains that each year an increasingly larger number of independent retailers is competing for a progressively decreasing volume of business that is left for them.

Even though the opportunities for owning an individual business are somewhat limited today, it does not follow that young men can not work out successful careers in the field in distribution. Ownership is not necessarily an indispensable feature of a successful business career. Many exceedingly successful men in every line of industry and commerce have been employees. If

one has the requisite qualities of a business executive, he can reap a rich reward even though he works for others. Nor is ownership essential to the rendering of constructive social service. One may find ample opportunity for benefiting his fellow men despite his affiliation with chain stores. It must be granted that a man who possesses ability and initiative may still find opportunities for constructive service to humanity. But will those opportunities be limited by his status as an employee instead of an employer? Furthermore, are there enough responsible positions in the chain organizations for all who qualify and who might otherwise operate stores of their own?

Little factual substantiation can be given the assertion that the substitution of store managers for store owners involves the restriction of individuality, individual initiative, personal responsibility, and self-reliance. It is generally felt, however, that owners possess those qualities in greater degree than employees. Possibly this is the result of a feeling of greater security on the part of the entrepreneur. It may partially be due to the fact that proprietors are looked upon with more esteem than paid managers. To some degree it may be traceable to the fact that successful owners generally reap from business greater rewards than do those who work for others.

Decline of the Store as a Social Center.—For many years the retail store was the community gathering place, and customers came in to exchange the latest news and gossip as well as to purchase merchandise. Today this is no longer true except in the smaller communities. The tempo of a successful modern retail business is much too fast to permit extended social intercourse between a clerk and customers or among the customers themselves. The modern store is very different from the old corner or general store, and the chain store has been partially responsible for this change. It has stimulated the modern impersonal environment and, undoubtedly, has done much to eliminate the retail store as a social center.

This change is less of a social handicap today than it would have been some years ago. With radios, automobiles, movies, and numerous sources of recreation, people find less need for the social contacts of the retail store. Instead of getting the latest bit of gossip or spending a pleasant hour at his favorite store, the man of today listens to his radio, plays golf, or takes a drive in

his car. The chain stores are accentuating a social change that is partially the result of other causes. It would be hard to imagine a busy A. and P. grocery, or a Woolworth five and ten, the social center of any community, as the local store so often is.

POLITICAL EFFECTS OF CHAIN STORES

The chain stores are a prolific source of political controversy. Probably no other retailing institution has been the subject of as many political attacks or as many attempts to curb or regulate by legislation as have the chain stores. For the past 10 years they have been more or less consistently involved in some form of political action. Chain store enemies were not slow in discovering that some of their most potent weapons were political in nature.

Source of Material for Politicians.—Those who seek to gain political recognition are apt to be constantly on the lookout for issues on which they can take vote-getting positions, and the chain store provides just such an issue. Practically all voters are familiar with them and are aware of some of the so-called "evil effects" that the chains are producing. Many small independent merchants find it difficult to exist amidst strenuous competition, and the blame for their plight is quite generally placed on the chain stores. Human sympathy being what it is, many persons side with the "under-dog" against his oppressor, and the chain store is widely regarded as the latter. Numerous politicians find it expedient to champion the anti-chain cause while others take active part because they sincerely feel that the chain store problem needs legislative action.

Some of the nation's most prominent political characters have taken a leading role in the controversies relating to the chain store. The late Huey Long, United States senator from Louisiana, was especially prominent in the anti-chain campaign, and the results of his work were but recently brought to light again. The Louisiana chain store tax, that was enacted at his insistence to curb out-of-state corporations, was declared constitutional by the United States Supreme Court in May, 1937.[1] His attitude toward chain stores can best be expressed by quoting from one of his speeches. When fighting for the enactment of his tax on chain stores he said, "I would rather have thieves and gangsters than

[1] See Louisiana decision, Chap. XVI, pp. 256–260.

chain stores in Louisiana." Representative Patman of Texas and Governor Earle of Pennsylvania are other prominent political personalities who have been active in securing legislative action against chain stores. The Pennsylvania chain tax was enacted largely at the determined insistence of the latter who placed it on his list of "legislative musts."

The chain store has provided numerous politicians with some of their most popular issues. Many have used them to form the backbone of their public campaigns while others utilize them when expediency dictates. In practically every instance where the politician has been vociferous regarding the chain store, he opposes them. Those who favor chain stores have not felt it wise to give wide public expression to their views. That attitude results in widespread loss of prestige by the chains in the eyes of the public.

Cause of New Regulatory Legislation.—The chains have been an important factor in the enactment of several new types of regulatory legislation. The numerous fair-trade and minimum-price laws are aimed largely at the chain stores. The independents, both retailer and wholesaler, attempted to curb the underselling practice of chains by fostering legislation that would prohibit such practices. One of the most important regulatory measures affecting distribution today is the Robinson-Patman Act, and this can be traced directly to the chain store (see Chap. XVII, p. 275). Congress felt that the chain stores utilized certain unfair trade practices with which the small business man was unable to cope without legislative assistance, and they sought to give him that aid. This type of legislation is important enough to warrant special treatment, and for that reason Chap. XVII is devoted largely to a discussion of it, with special emphasis on its effects upon chain stores.

Chains and Taxation.—A very important effect on the chains, and one that has seriously disturbed them, is caused by the enactment of special chain store taxation measures. Some 20 states are now collecting special taxes from chain stores. An increasing amount of chain store taxation springs from the desire to check the development of the chain store and from the need for additional revenue on the part of various states. Practically every state legislature has been confronted with at least one bill calling for the enactment of taxes directed at chains. It is not

the purpose of this chapter to discuss this vitally important subject, since it will be treated at length in Chap. XVII, but it is mentioned here as a very important political result of multiple store operation.

Chain Store Government Investigations.—Governmental agencies have conducted several investigations of chain stores in order to secure reliable information as a basis for legislative action. Legislative bodies felt the need for factual information as a guide in handling legislative measures directed at chain stores. Of the several studies undertaken, the most complete one was that made by the Federal Trade Commission. It attempted to cover as completely as possible the many phases of chain store operation, and it gave the public the first comprehensive picture of the chain store situation. This investigation contributed much to our knowledge of the subject.

A second important study was the Patman investigation which culminated in the passage of the Robinson-Patman Act. The revelations of the Patman Committee have proved extremely costly to and embarrassing for the chains. The demand for Federal legislation was so insistent, following the disclosures of various chain store practices, that the chains were helpless to stop it.

If all legislative action were based on studies as comprehensive as the two mentioned in the preceding paragraphs, there would be far less complaint when the bills finally became laws. Too many statutes are approved, however, without the benefit of a thorough analysis of the needs or consequences.

Chain Store Referendums.—No other type of merchandising institution has been the subject of so many or so wide public referendums as the chain stores. Two important state-wide contests were held on chain store issues. Both the states of Colorado and California balloted on the issue of chain store taxation. Also several communities voted upon the desirability of placing legislative restrictions on such institutions.

This type of political action assures each side in a controversy an opportunity to be heard which would appear highly desirable when not too costly. An institution that has an opportunity to present its case to all the voters would have little reason to object if that verdict were against it. No one is in a better position to decide whether particular legislation is in the public interest than

the people themselves, provided that they are impartially informed.

The Development of Pressure Groups.—The chains have been indirectly responsible for the formation of various pressure groups. Two types of organization have appeared largely as a result of chain store controversies. The first are the legitimate organizations of retail merchants, wholesalers, chain store owners, and others interested in legislative action affecting chain stores. Of the second type are the sniper groups, whose sole purpose apparently is to make money out of the situation. The first mentioned groups have as their purpose the curbing of chain store competition or the defense of anti-chain legislation. As a second purpose, they attempt to educate their members as to ways and means of successfully combating competition.

The sniper organization is usually sponsored by a fly-by-night organizer who uses various schemes to make money out of independent retailers. In many instances, independent merchants have been fleeced of money which was supposedly solicited for anti-chain store campaigns, but which largely found its way into the pockets of the organizers.

One of the most colorful personalities, and probably the most important anti-chain store campaigner, was W. K. Henderson, owner of radio station KWKH, at Shreveport, La. He continually denounced the chains over his station and organized the Merchant Minute Men, a large anti-chain organization. The chain store "peril" was vividly portrayed by this ardent enemy of big business.

These pressure groups have been very influential in securing political action, but such action is not always in the best interests of society. The primary function of such groups is to further their own particular ends, and it is difficult to see how the public welfare is served by that objective. It appears that the formation of these organizations has been an unfortunate result of chain store development.

SUMMARY

In the previous chapter it was observed that the business and economic effects of chain stores are largely favorable to society, but the same cannot be said of the social and political effects. It is in connection with the latter that the chain stores

have been so vigorously attacked. To be sure, they have contributed largely to the economical distribution of goods but at the same time they have seriously disturbed our social and political equanimity. Not all of these disturbances can be laid directly at the doorstep of the chain stores, but, in the main, they may be regarded as the results of chain store operation.

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CHAPTER XV

PUBLIC ATTITUDE TOWARD CHAINS

The mushroomlike growth of the chain store in the past two decades has stirred up a bitter controversy as to the ultimate public benefit to be derived from this type of institution. Independent merchants and wholesalers, who watched this new business giant carve off a huge slice of their trade, were aroused to vindictive fury. They fought the invader with every weapon at their command. As more and more independents felt the competition of chain stores, the attacks on this new retailing titan increased in magnitude and in poignancy. The ears of the public were filled with frantic pleas to save the community by patronizing and aiding the independent. Radio stations, such as the now famous KWHK, WBT, WDGY, and others, broadcast violent and scathing denouncements of chains; numerous publications, such as *Chained Menace*, *Truth*, *Chained*, and *Hello World*, sprang up to assail them; certain established periodicals and newspapers joined in the battle; politicians made the chain store "peril" the basis for campaign speeches; manufacturers, farmers, and others, with varying troubles which they partially ascribed to chains, joined hands with the independents in an attempt to curb their common enemy.

The chains were slow to make a determined effort to meet this attack. They contented themselves by sitting back and saying that the storm would soon blow over. They felt that it was merely history repeating itself. The same tumult had been aroused when department stores first appeared and again when the mail order houses made their bow, but in time it largely subsided. It was said that the disturbance was typical of those that precede the ultimate acceptance of any major change in retailing institutions. But the chain store proponents had greatly underestimated the temper and the ability of their attackers. The opposition was well organized, and before the chains were able to devise an effective defense, the charges

leveled at them had considerably damaged their prestige in the eyes of the public and before the various legislative bodies.

The charges which were directed at the chains were frequently based on the flimsiest factual evidence, and many were largely emotional rather than rational, but they seemed plausible to a goodly share of the public. It must not be supposed, however, that all the charges are unsubstantiated, since several contain a considerable measure of truth. But whether they were true or false, the important consideration was that a sizable portion of the public felt that these accusations reflected actual conditions.

Principal Criticisms of Chain Stores.—The present chapter is concerned with the various charges that presumably influenced the public attitude toward chain stores, regardless of whether those charges can be substantiated or not. Some of the indictments are the result of certain effects of chain store operation noted in the preceding two chapters. Such points will not be evaluated again but will be briefly mentioned because of their influence on public opinion. Certain other charges, however, especially those which are based largely on flimsy factual evidence, will be appraised at some length in this chapter. When they can be definitely substantiated they are justly regarded as effects and hence are discussed under that heading. The principal charges popularly and commercially directed against chains are as follows:

1. They impoverish the local communities by taking money out of town and sending it to the larger cities.
2. They do not patronize local business.
3. They increase absentee ownership which destroys opportunities for young men.
4. They tend toward monopoly.
5. They pay exceptionally low wages.
6. They do not bear their share of the tax burden.
7. They destroy the flavor of local community life by their policies of standardization and tend to rob communities of their individuality.
8. They increase unemployment by lessening the opportunities for traveling salesmen, wholesale, hotel, and railroad employees.
9. They destroy the small business man who is the "backbone of the nation."

10. They are tending to produce a "nation of clerks."

11. They resort to unfair trade practices in order to drive out local merchants.

12. They do not actually undersell as they attract trade by means of loss leaders and charge exorbitant prices for their private brands.

13. The pressure they exert when buying forces producers to sell at prices that are too low, and, consequently, these producers must unreasonably reduce wages and other costs and also charge higher prices to wholesalers who serve the independents.

Though at first glance it would seem that several of these charges might be waived aside as obviously unfounded, it is nevertheless true that each of them has helped influence public opinion. Not only that, but all of them have been cited at one time or another by the courts as justification for certain decisions rendered against chain stores. For example, a unanimous decision of a three-judge Federal court upholding the validity of Iowa's chain store tax (later outlawed by the U.S. Supreme Court) contained the following statement:

> . . . through the operation of the chain stores and chain store systems within the United States, and particularly within the State of Iowa, there has been an injurious effect to the smaller towns and cities of the State. Some of the effects being as follows:
>
> *a.* Replacement of individually owned stores;
> *b.* Tendency toward monopolies;
> *c.* Lessening the number of traveling salesmen with consequent loss of business to hotels, railroads, and other lines of business;
> *d.* Increase in absentee ownership;
> *e.* Withdrawal of credit and currency from the smaller town local banks to the larger cities.[1]

It is no wonder that these charges which the chains are wont to waive aside as being ridiculous have helped build up an unfriendly public attitude toward chain stores when they are cited by the Federal courts in decisions.

It is not the purpose of the present chapter to analyze the economic soundness of the charges made against chain stores, but rather to cite their effect on the public attitude toward these organizations. The authors feel, however, that a brief appraisal

[1] *The Northwestern Merchant*, January, 1936.

of some of the more prominent accusations is necessary in order that a better understanding of the entire problem may be secured.

Chains Take Money Out of Local Communities.—One of the most frequently mentioned criticisms of chain stores is that they take money out of the local communities. The idea is so plausible and has in it so much that seems true that almost anyone will believe it, as well as the implications that go with it, unless it is subjected to careful analysis. But when one scrutinizes the charge it becomes evident that no single community may retain all its wealth within its own boundaries. This type of reasoning is reminiscent of medieval thinking which was conditioned by the simple economy then prevailing. It harks back to the times when wants were few, life more or less simple, and each community was economically self-sufficient. Today the conditions are altogether different. Not unlike the chain store, even the local merchant must send money away from his locality to buy products that are manufactured elsewhere as no community in this day of specialization can produce all or a substantial part of the goods that it consumes. Both types employ local help in their stores, pay rent to local property owners, and advertise in local papers. In fact, chain stores patronize local newspapers to a larger extent than independents. The only money that the local merchant may retain in the community, which the larger chains do not expend locally, is his net profit, and this usually amounts to but a small percentage of sales. And in the case of chain stores not all the net profit is actually taken away since a certain share of the total chain business is done by *local* organizations, and that profit is naturally retained in the community. Of the profit taken out by other chain groups, a portion comes back to the local community in the form of dividends to scattered stockholders.

It must be admitted, however, that part of the net profit made by chains is sent to the larger financial centers, but, even though that is true, the community may not suffer because of it, since the same amount of money, or even more, may leave if consumers confine their purchases to independents. The latter do charge higher prices, and a portion of those higher prices is due to increased cost of merchandise which is often bought from distant sources of supply.

Chains Destroy the Small Business Man.—It cannot be denied that chain stores have forced out of business certain independent retailers. To the extent that these merchants are desirable citizens and a valued part of the social life of the community, the community suffers. This phenomenon, however, seems to be an integral part of our competitive economic system. Those in all walks of life who cannot survive the fair competition of others must fall by the wayside. Generally speaking, the community leaves them to solve their own problems so long as the competition which compels their departure is not legally or ethically unfair. We can, if we choose, change our philosophy in this respect, but we seem to have preferred to let economic motives prevail over social.[1]

Chains Standardize Communities.—The criticism that chain stores are depriving local communities of their individuality through the distribution of standardized articles is in a measure true. Chain stores must handle goods for which there is a large demand, and they do not foster selective buying for the individual demands of a community. But this tendency is in step with our present economic development. Merchandisers must adapt themselves to the social and economic changes that are being wrought in this country through the influence of motion pictures, radios, periodicals, and automobiles. They are all proving to be strong forces for the general acceptance of similar products in all sections of the nation. The citizens of Bangor, Maine, desire the same types of goods that the residents of San Diego, Calif., use. From reading the same magazines, seeing the same movies, and listening to the same radio programs, Americans generally develop desires for essentially the same things. The chain stores are only doing what all distributors find expedient to do—they are supplying a demand that already exists. We are sacrificing a degree of individuality for the economies which follow standardization. The question is, "Is society willing to sacrifice its individuality for the expediencies of mass production and distribution?" From the amount of patronage accorded to chains, it would seem that a substantial part of society prefers higher standards of living to an individualized existence. That

[1] PALMER, J. L., "Are These Twelve Charges against the Chains True?" *Retail Ledger*, July 1, 1929.

being the case, it hardly seems fair to accuse the chains of bringing about a situation which is contrary to society's welfare, when, in fact, it seems to be in line with a general trend that has wide public approbation.

Chains Do Not Patronize Local Business.—In the minds of many persons one of the most damning indictments of chain stores is that they do not patronize local business. It is charged that the services of local insurance men, local manufacturers, local lawyers, and others are not used by chain stores. Except for the local chains, whose numbers are rapidly decreasing, this charge is largely true.

In our present economic order every business man has the opportunity to purchase products or services wherever he feels he can profit most, and in the case of chain stores they generally find that the local community is less able to serve them than specialists in other places. It is a natural development of our competitive economic system. It would seem, however, that the chain stores might do well to sacrifice some of the benefits of specialization in return for better relations with the public in the communities in which they operate.

Chains Do Not Pay Their Fair Share of Taxes.—It has been repeatedly charged that chain stores do not pay their fair share of taxes, but it seems that this controversy centers largely about what is meant by "fair." In meeting this criticism, chains cite the long list of Federal, state, county, and city taxes which they pay. They claim that they are subject to all the taxes that are levied on the independents and actually pay considerably more in corporate income and franchise taxes. The local merchants counter, however, by claiming that these taxes do not fall so heavily on chain stores as on independents, that the small independent merchants pay more taxes per dollar of sales than the chain stores with their larger volume of business and their more rapid turnover. It is also claimed that chain stores have larger earnings per store and therefore have greater ability to pay taxes, and it has long been the practice to levy taxes according to the ability to pay.[1]

[1] For a more complete discussion of the relative tax burden on chain and independent stores, see the evidence of Professors Martin, Waldradt, and Phelps in the case of *Stewart Dry Goods Company* v. *Lewis, et al.*, 294 U.S. 550 (1935).

It is quite possible that chain stores pay less taxes per dollar of sales partly because they are more efficient than their competitors, and although it seems hardly equitable to penalize a person because he is more efficient than his competitors, it is, nevertheless, a common practice. For example, income taxes fall most heavily on those who profit the most in their businesses. But regardless of the relative tax burden on chain and independent merchants, it is doubtful whether the public is particularly interested in this factor. Local retailers may be much disturbed by this charge but it probably has had little effect on the public attitude toward chain stores.

Efforts of Chains to Meet Indictments.—The chain store attitude in regard to charges hurled at them has been largely defensive. For quite some time they contented themselves by merely denying the validity of the criticisms and it has been only in the past few years that any aggressive counter attack has been attempted. As the rising tide of popular resentment against them began to produce unfavorable legislation, chain organizations awakened to the need for more vigorous and positive action. This resulted in propagandizing educators, furnishing debaters with pro-chain store information, urging their employees to join civic clubs and participate actively in community affairs, in sizable donations to community fund drives, and in advertising space in newspapers and periodicals designed to create a more friendly public attitude. But the campaign was handicapped by a late start and a growing public prejudice against "big business" of all kinds. On the whole, relatively little headway was made in winning back the public favor.

Although as consumers the public continued to patronize chain stores, nevertheless it remained sympathetic to attempts to curb further chain expansion. Blanket denials of the charges directed at them accomplished little in the way of placing chains in the public's good graces. The claims that chains were saving the American consumers hundreds of millions of dollars annually and have contributed largely to our welfare were considerably discounted or disregarded by the public, and rightly so. Many of these claims are so extravagant and ill founded that little credence can be given to them except by the unwary and unsophisticated. For example, in a recent pro-chain publication that is widely used, it is claimed that chain stores contribute more than

$8 billions to the United States, consisting of $5 billions in purchases from manufacturers and other producers, over $450 millions in rents paid to thousands of real estate owners, $200 millions spent for advertising, nearly a billion dollars in wages paid to chain store employees, nearly $175 millions in state and local taxes, and over three-quarters of a billion dollars in savings to consumers through lower retail prices.

The absurdity of this type of reasoning is quite apparent. In the first place, it is assumed that this volume of business would be entirely lost to the United States were chains nonexistent, instead of other types of retail institutions transacting it. Second, the statement on savings is grossly overstated as shown in a preceding chapter. Third, the very immensity of the contribution, if such it may be called, is enough to scare the public and to call unfavorable attention to the giant stalking in our midst. For similar reasons, the assertions of special services rendered farmers and manufacturers also held little interest for consumers.

In their public relations, chain stores had definitely failed to take advantage of their opportunities. They outdistanced the independent merchants in effecting operating economies, but, in turn, they have been outmatched (at least until recently) in building favorable public sentiment. The need for acquainting the public with the blessings bestowed by chain stores was brought forcibly to the attention of chain operators by the first public referendum conducted on anti-chain legislation. Recently the chains have been somewhat more successful in developing a favorable attitude of the public.

Referendums on Anti-chain Legislation.—Undoubtedly one of the best tests of the public attitude toward chain stores is the popular referendum on anti-chain legislation. The first referendums conducted on this subject proved very disappointing to the chain store champions. They had assumed that the public was favorably inclined to chain stores, as evidenced by continued patronage as consumers, but it was soon discovered that, even though consumers traded at chain stores, they were opposed to certain phases of their operation which were regarded as inimical to the general welfare of the people.

The first important referendum on an anti-chain act was the one held in Portland, Ore., in November, 1932. Portland had

enacted a chain store tax ordinance, and it was placed before the voters under the "referendum" provision of the Oregon constitution. A spirited campaign was waged by both advocates and opponents of the law and the act was finally sustained by a vote of 53,871 to 51,782. The vote was close and indecisive. It gave evidence, however, that anti-chain legislation was not universally popular with the public. Shortly thereafter, the referendum on the Colorado state chain store tax also resulted in a defeat for the chains.

These setbacks made the chain organizations realize the necessity for better public relations, and rather tardily they set about to remedy the unfavorable situation in which they found themselves. They then embarked upon a campaign of acquainting the public with the social benefits of chain stores, and they were especially desirous of preventing public opinion being molded against them in the form of laws, organizations, and the like. Their "educational" program in the form of paid advertisements, a speakers' bureau, radio broadcasts, lobbying, and research was soon in full sway. It was not successful in *stopping* the rising tide of public resentment against chain stores, but undoubtedly it had a deterring effect.

The full flood of chain store propaganda was loosed in California when that state held a referendum in the fall of 1936 on its chain store tax law and the result was more satisfactory to the chains. The chain stores had learned through experience that a defensive campaign, and one which attempted to inform the public of the benefits they were bestowing on it, was not very successful. In the California "battle" they hit upon a scheme for giving more concrete evidence of their desire and ability to serve the community. A bumper peach crop in California gave the chains an opportunity to swing a goodly share of the farm vote to their side, and they were not slow to take advantage of this condition. The overproduction of peaches threatened to demoralize the market, and the chain stores, by means of special canned-peach sales drives, removed the threat of a glutted market. California peach growers and canners were saved from financial embarrassment, and they showed their appreciation at the polls by helping defeat the chain store tax. It is said that a similar campaign on behalf of the Maine potato farmers was an important factor in the repeal of that state's chain store tax.

It would seem that the chain stores are becoming more expert in swaying public opinion, but it is doubtful if, under present conditions, they can successfully institute a nation-wide campaign that will prove as satisfactory for them as the California and Maine campaigns.

Studies of the Public Attitude toward Chain Stores.—Few attempts at objective studies have been made to measure public reaction to chain stores. In fact, the authors were able to find only fragmentary and scattered data on this exceedingly important phase of the chain store problem. The American Institute of Public Opinion has gathered some answers during August, 1936, to the question, "Are you in favor of legislation requiring chain stores in your state to pay special taxes?" The results of the returns showed that approximately 69 per cent of the respondents favored a chain store tax, but that percentage varied among different geographical areas and among different classes of people.[1] For example, the poll revealed that in the Central and Southern sections of the country 70 per cent of the respondents looked with favor upon chain store taxation, whereas the percentage was smaller in the New England and Far Western States. Only 67 per cent of the New Englanders, 65 per cent of the residents in the Mountain states, and 61 per cent of the Pacific Coast citizens voted in favor of chain store taxes. The New England vote is partially the result of the conservative nature of its inhabitants but even here the majority of people regard the chains with disfavor. The vote in the Far West reflects the vigorous campaign conducted by the chain stores to defeat the California chain store tax at the general election of 1936.

The results of the Institute's poll among different groups of persons show some significant trends. For example, 75 per cent of the Democrats interviewed were favorable to chain store taxation while only 60 per cent of the Republicans regard it in the same light; 72 per cent of small-town residents and only 67 per cent of the urban population favored it. Only 64 per cent of the younger persons (under 25 years) voted for these special taxes. The wide general approval of chain store taxation which these data reveal indicates that the chains have a real problem on their

[1] Letter from Lawrence E. Benson of the American Institute of Public Opinion, June 9, 1937.

hands if they are to curb unfavorable legislation by changing public opinion.

Springfield, Ohio, Study.[1]—A small but recent survey in Springfield, Ohio, reveals some interesting information on consumer reactions toward chain and independent grocery stores. In connection with this patronage-motivation study, a limited number of answers were obtained to queries regarding consumer prejudices against chain and independent grocery stores. Consumers were asked "Why don't you patronize chain grocery stores?" or "Why don't you patronize independent grocery stores?" in order to secure negative reactions to these stores.

Out of 902 Springfield, Ohio, families interviewed in the latter part of 1936, 51.3 per cent indicated their disfavor of chain stores in the retail grocery field; only 5.3 per cent of the families indicated that they were prejudiced against the independent type of store; while the remainder, some 43.3 per cent, were neutral relative to the matter. Two very significant factors are revealed in these data: first, that over 50 per cent of the consumers are definitely prejudiced against chain stores; and second, that almost ten times as many persons regard the chains unfavorably as those who regard independents unfavorably. This would seem to indicate that chain grocery stores are faced with a serious public-relations problem if they are to avert even more stringent types of anti-chain legislation than they have already experienced.

The reasons for not patronizing chain stores, which were given by those interviewed, are shown in Table 50. It is of particular interest to note the influence of the charge that chain stores take money out of the community. This belief was mentioned as a first reason for bias in the minds of 43.2 per cent of all persons admitting a prejudice against chain grocery stores. The most frequently mentioned second reason was the statement that chain stores do not patronize local businesses. This accounted for 34.2 per cent of all second reasons given and was also the most frequently mentioned third reason. Combining the first, second, and third reasons into total reasons, it will be observed that taking money out of the community and not patronizing local businesses account for 56.5 per cent of all reasons given by

[1] Fouch, G. E., "Patronage Motivation in the Purchasing of Groceries by Springfield, Ohio, Consumers," a thesis presented for degree of Master in Business Administration, Ohio State University, Columbus, Ohio, 1937.

the consumers interrogated for being antagonistic to chain stores.

From data revealed in this study it would appear that chains would do well to concentrate their propaganda on removing these prejudices from the minds of consumers. Inasmuch as these indictments of chain stores are more potent in arousing anti-chain store feeling than the other charges, even though they may not be so valid, they deserve more consideration.

TABLE 50.—REASONS GIVEN BY 463 SPRINGFIELD, OHIO, CONSUMERS FOR PREFERRING NOT TO PATRONIZE CHAIN GROCERY STORES

Reason for not patronizing chain stores	Number of reasons given				Percentage distribution			
	1st	2d	3d	Total	1st	2d	3d	Total
Take money out of community	200	85	17	302	43.2	25.9	12.4	32.3
Do not patronize local businesses	80	112	34	226	17.3	34.2	24.8	24.3
Tend toward monopoly control	32	30	24	86	6.9	9.2	17.5	9.5
Unsympathetic	62	14	6	82	13.4	4.3	4.4	8.8
Make too much profit	12	24	19	55	2.6	7.3	13.9	5.9
Pay employees low wages	9	18	11	38	1.9	5.5	8.0	4.1
Dishonest	13	13	6	32	2.8	4.0	4.4	3.5
Dislike policies	17	9	6	32	3.7	2.7	4.4	3.5
Inferior products	7	8	4	19	1.5	2.4	2.9	2.1
Don't help civic projects	4	5	1	10	0.9	1.5	0.7	1.1
Don't pay taxes	2	3	1	6	0.4	0.9	0.7	0.7
Other	25	7	8	40	5.4	2.1	5.9	4.2
Total	463	328	137	928	100.0	100.0	100.0	100.0

The reasons given by consumers for preferring not to deal with independent stores were too few to merit serious consideration, but they related largely to the inefficiency of the local retailers. Consumers objected to the out-moded stores and the poorly trained sales clerks, but they were not disturbed by any unsocial effects of independent stores.

Present Status of Public Attitude toward Chains.—From the foregoing it appears that chain stores are held in wide disfavor by the public generally, and they have been rather slow in recog-

nizing that they must convince the consumer of their social value in other ways than by merely selling goods cheaply. They must acquaint the public with the economic service they are rendering their customers in order that they may retain their present share of the nation's retail volume and also that they may prevent the enactment of stringent legislative restrictions on their activities. Public sentiment once turned against an economic institution is difficult to combat. There have been numerous instances, however, of businesses faced with public hostility which have eliminated that prejudice by means of well-planned publicity campaigns and honesty in their public relations, and the chain stores have the same opportunity. Whether they can successfully instill in the consumer an appreciation of their true economic usefulness, only time can tell.

CHAPTER XVI

CHAIN STORE TAXATION

From time immemorial governments have made extensive use of their taxing power to control and regulate business. The right to tax in such instances has been exercised for the ostensible purpose of equalizing competition but in reality for the purpose of eliminating or definitely curtailing the business done by certain forms of business enterprise.

On many occasions in the field of retailing attempts have been made to place legislative limitations on a particular type of retailer as the competitive situation changed. In the latter part of the nineteenth century, when agitation against the growing department store type of merchandising was strong, efforts were made to restrain its development by legislation. The state of Missouri passed a law calling for a tax of $500 on each classification of goods sold by any store. In Pennsylvania an effort was made to collect $100,000 in license fees from the department stores of the state, but the bill failed to pass.[1] A few years later attempts were made to curb the growth of mail order houses and after the World War the house-to-house salesman was bitterly assailed. But in all these attempts to combat an aggressive merchandising foe little was accomplished in a concrete way. A great hue and cry was raised but little was done by legislative means actually to stop their further progress. Some public resentment evidenced itself against these retailers and large-scale business generally, but their development was ultimately curbed not by legislation, but by their own natural limitations.

Early Attempts to Curb Chain Store Growth.—The next form of retailing to feel the resentment of the established merchandisers was the chain store. Growing by leaps and bounds after the World War, the chains soon pinched existing merchants to the point of active resentment. As early as 1922 an organized effort to stop chain stores was definitely on foot and the anti-

[1] PHILLIPS, CHARLES F., "State Discriminatory Chain Store Taxation," *Harvard Business Review*, Spring, 1936, pp. 349–359.

chain store movement once under way spread like wildfire. By 1929 active local organizations were formed in more than 400 cities and towns throughout the United States to fight the so-called "chain store menace."[1] Their first efforts were directed at manufacturers, in an attempt to force the latter to stop selling to chain stores, but all such pressures met with little success. Next they sought to influence the consumer to withhold his patronage from the chain store. The radio was brought into play, the mails were flooded, and orators waxed eloquent—all in an attempt to induce consumers to cease buying from chain stores. But still the chains grew.

Taking heed from their past failures, the anti-chain store organizations sought allies to help fight their battle. Mindful of the fact that the government had frequently enacted restrictive legislation to express disapproval of various industrial, financial, and marketing developments, the chain store antagonists asked for and received political aid. Governors, state legislators, and even congressmen were drawn into the ever-widening group of those who were opposed to the chain store industry. Some joined the anti-chain movement because they sincerely believed that some governmental check on this expanding industry was necessary; some because they realized that here was a ready-made issue upon which a great deal of popular sentiment could be aroused, and that it gave them an opportunity to "lambast" big business; and still others offered their services because taxing chain stores presented an opportunity to raise revenue to help fill the depleted public purse. But regardless of their motives, the legislators were not slow to swing into action.

Reasons for Chain Store Taxation.—The pressing need for additional state revenue during the past ten years presented a ready-made reason for enacting new types of taxes, and those who sought to arrest the development of chain stores, introduced restrictive chain store legislation in the form of revenue-producing taxes. It was then possible to rationalize that the passage of the bill was necessary in order to raise much-needed state funds, and, in certain cases, it was true that the proposed chain store tax would produce a sizable portion of the needed revenue. In most states, however, the proposed law was calculated to produce only

[1] Nichols, John P., "Chain Stores and Their Special Tax Problems," p. 1, Limited Price Variety Stores Association, New York, 1935.

incidental rather than substantial amounts of revenue. The revenue feature was largely a smoke screen, used in many cases to hide the real purpose of the tax, which was to handicap chain stores. If the real purpose had been to produce a sufficient amount of revenue to aid materially in solving the fiscal problems of any state, the tax imposed would have been so great as to destroy the existence of many chain stores, thereby defeating any genuine fiscal objective.

Since the desire to produce revenue was, with few exceptions, largely an incidental objective of chain store taxation and the primary purpose was to curb chain store growth, just what reasons were brought forth to justify this course of action? The chain antagonists produced many. They charged the chains with unfair price cutting, evading taxes, coercing producers into giving excessive discounts on purchases, instituting dangerous monopolies, practicing short weights, unfair treatment of labor, failure to cooperate in community undertakings, sending money out of the community, and other abuses.[1] Farmers complained that chain store buyers were partly responsible for the low prices for farm products. Some insisted on taxing the chains because they have the ability to pay such taxes. Others joined in because they were opposed to any form of "big business." The chain store foes lined up an impressive array of charges which they were not slow in utilizing when pressing for chain store tax legislation.

Legal Precedents.—Legislation enacted for the purpose of checking the growth of a new form of competition or for expressing governmental disapproval is new neither in this country nor abroad. In the United States, as already indicated, we have had legislation directed against department stores, mail order houses, and house-to-house salesmen. Outside the field of distribution the government has frequently legislated for the protection of certain influential groups. Protective tariffs and subsidies have long been employed to protect favored factions from outside competition. Progressive income and estate taxes have been utilized for expressing disapproval of large fortunes; with one argument or another, corporations have been subjected to special imposts; and graduated-profits taxes, excess-profits taxes, and the

[1] BUEHLER, ALFRED G., "Chain Store Taxes," a paper read at annual meeting of The National Association of Marketing Teachers, Dec. 29, 1936.

federal undistributed-profits tax have been adopted not only to raise revenue but also to check the concentration of corporate control. The chain store tax measures, therefore, are not without numerous precedents in American tax history.

Abroad we find governments imposing chain store taxes as early as 1910 when Bavaria placed a 5 per cent tax on the sales of all chain organizations.[1] Two years later "France discriminated against 'multiple' stores by increasing the patente (a tax based on the number of employees, rentals, and other factors varying with the size of the business) 25 per cent for chains of five to ten units, 33⅓ per cent for companies of eleven to twenty stores, 50 per cent for chains of from 21 to 50 units, and 100 per cent for larger chains."[2] According to Dr. Moride, these increases were imposed largely as a result of the efforts of small retailers who sought to restrain the further growth of chain stores rather than to improve their own efficiency.

Growth of State Chain Store Taxation.—The first attempts to enact specific chain store taxes in the United States were made in 1925 when the legislatures of two states considered such measures. Although both of these failed of enactment, the chain store opponents now had hit upon a concrete method of striking at the chains, and they thus rallied about the cause of chain store taxation. The movement once under way was pushed with vigor. In 1927, 13 chain store tax bills were introduced in state legislatures, and 4 were enacted into laws. Success seemed assured to those who sought to hamper chain store expansion and practically every state government was urged to enact this new type of tax. A study of Table 51 will show the rapid progress made by the anti-chain groups in securing the passage of tax legislation designed to impede multiple store development. It will be noted that the greatest activity has taken place in odd years when most legislatures meet, the even years being "off" years for many state law-making bodies.

In 1931 a tremendous amount of activity was manifest in chain store taxation; 152 separate tax bills were introduced during that year in various state legislatures, although only two were finally enacted. A very definite change in the trend of chain store

[1] MORIDE, P., "Les maisons à succursales multiples, en France et à l'etranger," p. 165, F. Alcan, 1913.

[2] PHILLIPS, C. F., "State Discriminatory Chain Store Taxation," *Harvard Business Review*, Spring, 1936, p. 350.

taxation was evident. What had been but a ripple a few years back had now become a flood. State legislators were engulfed in anti-chain proposals. What were the causes of this sudden change in sentiment? The reasons were numerous, but two stood out:

1. The effect of a growing economic depression had drained state treasuries. Usually productive sources of tax money were drying up and the states eagerly sought additional means of obtaining badly needed tax revenue. Chain stores appeared to be a lucrative source whose taxing would also please many influential groups.

2. The United States Supreme Court had declared valid the Indiana chain store tax in May of 1931 and had in that way removed the unconstitutionality barrier. Previous to this decision there was a considerable doubt as to the ultimate legality of this form of legislation and naturally it hampered the enactment of chain tax measures.

TABLE 51.—GROWTH OF STATE CHAIN STORE TAX LEGISLATION, 1925–1937

Year	Bills introduced	Laws enacted
1925	2	
1926	1	
1927	13	4
1928	5	5
1929	32	2
1930	13	4
1931	175	2
1932	125	3
1933	225	13
1934	53	3
1935	152	8
1936	31	2
1937[a]	89	4
Totals	916	50

Source: Institute of Distribution, Inc., 570 Seventh Avenue, New York City
[a] The 1937 figures cover only the first five months of the year.

The pressing need for general funds supplied the motive and the Indiana decision suggested the method. The result was electric. The anti-chain movement after much fruitless agitation

was now articulate. Chain store tax bills flooded the nation's law-making bodies, and many achieved legal status. Through the thirties right up to the present moment there has been no abatement in the tide of anti-chain store taxation. The efforts to tax chain stores had become so numerous that John T. Flynn could write with a great deal of truth that, "Wherever a little band of lawmakers are gathered together in the sacred name of legislation, you may be sure that they are putting their heads together and thinking up things they can do to the chain stores."[1]

Types of Chain Store Tax Laws.—The chain store tax laws that have been enacted fall largely into two classes, the graduated license tax and the graduated gross sales tax.[2] The first chain store tax laws were either of the flat sum or graduated license tax variety and were quite generally rejected by the courts on constitutional grounds. Those pressing for anti-chain store legislation were undaunted and proposed an increasing number of bills of the same type. Their efforts were rewarded when the United States Supreme Court declared the Indiana graduated chain store license tax legal and a host of such tax proposals then poured into legislative halls. Under the Indiana law a single store under one ownership or management was taxed $3 annually. If there were from two to five stores under the same control within the state, the tax was $10 on each of these additional units. The tax per store increased with additional stores, reaching a maximum rate of $25 on the twenty-first store. Neither the kind of goods sold, the size of the stores, nor net income affected the amount of the tax. In the meantime, however, several states turned to graduated gross sales taxes as more effective devices than license taxes in restraining chain store expansion. Kentucky passed such an act in 1930. This tax was a progressive levy on gross sales rather than on the units operated. Sales of one organization were considered as a unit whether or not the organization was a chain. The rates started at $\frac{1}{20}$ of 1 per cent of gross sales not exceeding $400,000 and rose to 1 per cent of the excess of sales over $1,000,000. Ultimately the United

[1] PHILLIPS, C. F., "State Discriminatory Chain Store Taxation," *Harvard Business Review*, Spring, 1936, p. 354.

[2] Virginia enacted a chain store warehouse tax, but it is relatively unimportant compared with the two types of taxes listed above and, for that reason, it is omitted from discussion.

States Supreme Court declared this law unconstitutional, and, as a result, only a comparatively few graduated sales taxes have been enacted since. The vast majority of all chain store tax proposals have therefore been of the license type.

At the present time, twenty states are enforcing chain store license taxes, *viz.*, Alabama, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Montana, North Carolina, Pennsylvania, South Carolina, South Dakota, Tennessee, and West Virginia. In the state of Texas the collection of the tax is being restrained by court action.[1] A typical graduated license tax is the Michigan act whose main provisions are as follows·

THE TAX SCALE OF THE MICHIGAN CHAIN STORE TAX

Bracket	Number of stores operated in Michigan	Tax on Michigan units
1	2–3	$10 for each in excess of 1
2	4–5	$25 for each in excess of 3
3	6–10	$50 for each in excess of 5
4	11–15	$100 for each in excess of 10
5	16–20	$150 for each in excess of 16
6	21–25	$200 for each in excess of 20
7	26, and over	$250 for each in excess of 25

Under the Michigan law, a chain operating 35 units in the state would be required to pay a tax of $10 per store for the second and third units, $25 per store for the fourth and fifth units, $50 per store for the next five units, $100 per store for the following five units, $150 per store for an additional five units, $200 per store for the five units from 21 to 25, and $250 per store for the 10 stores in excess of 25, making a total tax of $5,070. If, however, the Florida plan of graduated license tax were followed by Michigan, the $250 per store would apply to all of the 35 units operated by the chain used as an example, and the total tax would be $8,750.

The tax rates vary widely from state to state, from $30 per store for all stores over 10 in Montana to $550 per store for each

[1] For a complete list of state chain store tax laws, showing their principal provisions and the legal rulings on such acts, see Appendices I and J.

store operated within the boundaries of Louisiana if the chain organization consists of 500 or more units. The Great Atlantic & Pacific Tea Company would pay the state of Montana only $205 for the privilege of operating 11 stores within the state's borders, whereas the state of Louisiana would exact a levy of $6,050 for the same number of stores operated within the state simply because, under the Louisiana law, the company falls in the highest bracket, *i.e.*, 500 or more stores operated anywhere by the organization.

Despite the fact that the United States Supreme Court has ruled adversely on the graduated sales tax, one state is still enforcing that type of tax. Minnesota exacts such a tax on the gross sales of mercantile establishments, the tax starting from $\frac{1}{20}$ of 1 per cent on sales of less than $100,000, and increasing to 1 per cent on sales of over $1,000,000. Chains find this type of tax burdensome because all the sales of the various units of the organization are lumped together for tax purposes and the stores are not regarded as separate entities in the computation of the tax. It is plain to be seen that a chain organization would pay several times the tax of competing independent merchants. It must be remembered, however, that this type of tax also bears heavily on individually owned department stores and on other stores having a large volume of sales. For that reason department store owners have quite generally fought this type of tax, shoulder to shoulder with chain stores.

One graduated sales tax that provided for exceptionally severe levies was the Iowa law. It provided for graduated sales taxes reaching 10 per cent on all sales of $9 millions and over. The effect of this upon the larger chains would indeed have been confiscatory and would have forced drastic changes in some cases. Fortunately for many chain stores, this law was ruled invalid by the United States Supreme Court in 1936.

Attitude of the Courts toward Chain Store License Taxes.— Chain stores did not accept the new taxes levied on them without a bitter fight in the courts. At every opportunity they appealed to the judiciary for protection, and their efforts were frequently crowned with success. The first few chain store tax statutes were quite uniformly ruled invalid by the lower courts, because of the general contention that they represented "unjustified discrimination between the chain stores and other stores of the same

general class."[1] The exact legal status of these laws was quite indefinite, however, as the lower courts had held both for and against the constitutionality of the new taxes, and until 1931 none had been reviewed by the United States Supreme Court.

The situation needed the clarifying influence of a Supreme Court decision. In 1929 the opportunity presented itself when a three-judge Federal court declared the Indiana chain store tax unconstitutional, and the case was appealed to the United States Supreme Court. On May 18, 1931 the Supreme Court rendered a five-to-four decision reversing the lower court and affirming the validity of Indiana's tax. It was a momentous decision in chain store history. The court based its decision on the ground that a reasonable distinction for tax purposes existed between chain and independent stores. It did not feel disposed to consider the justness or propriety of the law, but concerned itself largely with an inquiry into the right of a state to levy such a tax. In the words of the Court,

> The principles which govern the decision of this case are well settled. The power of taxation is fundamental to the very existence of the government of the states. The restriction that it shall not be so exercised as to deny to any the equal protection of the laws does not compel the adoption of an iron rule of equal taxation, nor prevent variety of difference in taxation, or discretion in the selection of the subjects, or the classification for taxation of properties, businesses, trades, callings, or occupations. . . . The fact that a statute discriminates in favor of a certain class does not make it arbitrary, if the discrimination is founded upon a reasonable distinction. . . . The statute treats upon a similar basis all owners of chain stores similarly situated. In the light of what we have said this is all that the Constitution requires.[2]

The Court took the view that as long as the law taxed all stores of the same class equally, it was not discriminatory. The validity of chain store taxation then hinges on the question as to whether chain stores are a class separate and distinct from independent stores of the same type. So far the courts have held that they are. It is alleged that chains possess certain advantages in organization, management, advertising, and other prac-

[1] *Great Atlantic & Pacific Tea Company et al. v. Doughton*, 196 N. C. 145 (1928).

[2] *State Board of Tax Commissioners of Indiana v. Jackson*, 283 U.S. 527 (1931).

tices and procedures which are not available to independent merchants; consequently, they may be classified, at least for taxation purposes, differently than independent merchants.

Subsequent decisions of the Supreme Court have reaffirmed the stand taken in the Indiana case. The North Carolina tax was appealed to the United States Supreme Court in the same year as the Indiana law, and it too was declared constitutional.[1] In 1933 the first Florida chain store tax law was appealed and though the Supreme Court ruled that particular law unconstitutional, the principle evolved in the Indiana case was reaffirmed.[2]

More recent cases have helped to clarify still further the constitutionality of chain store license taxes. The two West Virginia cases have been particularly enlightening. The state of West Virginia had required gasoline filling stations to be taxed as retail stores. The court upheld the classification of filling stations as stores for purposes of taxation in the first case, and in the next it declared that the leasing of filling stations by gasoline distributors to the operators did not exempt the leased stations from paying the chain store taxes.

In the first West Virginia case the Supreme Court rendered a decision that was particularly depressing to chain store organizations. It stated that the rates of the tax might be graduated to the point where the average tax per store for a large chain would exceed the average profits per store. If a chain organization should therefore multiply its units to the point where the tax on its stores was greater than the profits, the responsibility would be its own, and it could not obtain redress from the courts. The United States Supreme Court declared in this case that,[3] "When the power to tax exists, the extent of the burden is a matter for the discretion of the lawmakers. . . . Even if the tax should destroy a business, it would not be made invalid or require compensation upon that ground alone." The Court also held that the feature of graduated chain store license taxes was a proper exercise of the

[1] *Great Atlantic & Pacific Tea Company v. Maxwell,* 284 U.S. 584 (1932).

[2] *Liggett v. Lee,* 288 U.S. 51 (1933). The Supreme Court conceded the right of Florida to segregate chain stores from other retail institutions for purposes of taxation but denied that the state had the right to distinguish between chains operating in one county and those operating in more than one because this distinction withdrew from the latter the equal protection of the law.

[3] *Fox v. Standard Oil Co.,* 294 U.S. 87–99 (1935).

taxing power, its attitude being that the advantages of chain stores increased with the number of units and that the social and economic consequences became more far-reaching as more stores were added. "For that reason," the Court said, "The state may tax the larger chains more heavily than the small ones and upon a graduated scale."

The Louisiana Decision, a New Precedent.—The most recent chain store tax decision rendered by the United States Supreme Court not only reaffirmed the right of a state to tax the longer chains more severely than the shorter ones, but it also upheld the right of a state to classify a chain in a given bracket on the basis of the number of units it operates regardless of the location of such units. Louisiana, in 1934, enacted a chain store tax which classifies chains by size based, not upon the number of stores within its boundaries, but on the number of units in the whole chain organization regardless of their location, the law imposing a tax of $550 on each link in a chain of more than 500 stores. By a 4 to 3 decision,[1] on May 17, 1937, the Court affirmed the tax, holding that it was fully justified under the police powers of the state. The decision is of utmost importance because of two factors: first, it gives judicial sanction to the principle of graduated chain store taxation without mincing words, and second, it upholds the right of a state to make the classification of chains dependent on the number of units operated outside as well as within its borders.

Justice Roberts, in the majority opinion, stated that the "addition of units to a chain increases the competitive advantage of each store in the chain," and that,

> If, in the interest of the people of the state the Legislature deemed it necessary either to mitigate evils of competition as between single stores and chains or to neutralize disadvantages of small chains in their competition with large ones, or to discourage merchandising within the state by chains grown so large as to become a menace to the general welfare, it was at liberty to regulate the matter directly or to resort to the type of tax evidenced by the Act of 1934 as a means of regulation.[2]

Justice Roberts said further that the advantages of large chains were amply supported by evidence and cited the special discounts

[1] Justices Van Devanter and Stone took no part in the decision.

[2] *Great Atlantic & Pacific Tea Company et al. v. Alice Lee Grosjean*, 81 U.S. 735, 1937 (Lawyers' Edition).

and allowances of $8,105,000 received by the Great Atlantic & Pacific Tea Company in the year 1934.

In disposing of the contention that the Louisiana law was an attempt to secure revenue by an extra-territorial tax, to discriminate in favor of local against national chains, and as a burden on interstate commerce, the majority opinion stated, "We hold the legislation impregnable to attack on these grounds." It stated further that,

> If the competitive advantages of a chain increase with the number of its component links, it is hard to see how these advantages cease at the State boundary. . . . Under the findings a store belonging to a chain of one hundred all located in Louisiana, has not the same competitive advantages as one of one hundred Louisiana stores belonging to a national chain of 15,000 stores.

Amplifying more clearly the state's rights to tax property within its borders on the basis of the whole organization of which such property is but a part, the Court continued,

> In legal contemplation the State does not lay a tax upon property lying beyond her borders nor does she tax any privilege exercised and enjoyed by the taxpayer in other states. . . . The law rates the privilege enjoyed in Louisiana according to the nature and extent of that privilege in the light of the advantages, the capacity and the comparative ability of the chain's stores in Louisiana considered not by themselves, as if they constituted the whole organization, but in their setting as integral parts of a much larger organization.

In the Louisiana decision, as in several previous instances, the Supreme Court has affirmed the legality of graduated chain store license taxes imposed by states. This was based, at least in part, on the assumption that chain stores inherently possess certain advantages which are denied to independents. The validity of this assumption has already been demonstrated by discussions in preceding chapters. But the Supreme Court further assumed that the advantages inherent in the chain method of operation are to be found in a larger measure in the longer chains (*i.e.*, chains with many store units) than in the shorter chains. For proof of this latter point the Court almost wholly relied upon the evidence obtained and on the findings made by the lower courts. It is on this score that the Supreme Court may be justifiably criticized, even though it pursued sound legal practice in not delving into

the findings of the lower courts. On a question that is subject to as much dispute as this, the Supreme Court might have inquired into the nature and comprehensiveness of the evidence upon which the lower courts based their findings.

Even sharper criticism must be leveled against the lower courts for basing important findings upon flimsy and incomplete data. There is altogether too little statistical information to warrant the assumption that the longer chains are in a more advantageous position than the shorter chains. It is believed that there is some truth in this contention when the very small chains, *viz.*, those having 2 or 3 stores, are compared with those having 10 or 15 stores, and it is probable that chains with 50 or 100 stores have an advantage over those operating 20 or 25 stores. Even on this point there is but fragmentary factual evidence. But when a comparison is made between chains having, say, 300 stores and those operating 400 or 500 stores, there is serious doubt as to the superior ability of the latter. Whatever statistical evidence there is on this score (see Chap. IX) is not convincing one way or the other.

Except in a very general way, the courts are incorrect in assuming that "the greater the number of units, the greater the purchasing power of the chain." In the first place, as shown in Chap. IX, there is considerable difference in the sales per store of chains in different lines of trade and even among chains in the same line of trade. Consequently, a chain with 50 stores may operate on a larger scale than another having three times the number of stores. This is more than a mere assumption; it is founded in actuality. Second, much of the buying advantage heretofore enjoyed by the larger, though not necessarily the longer, chains, is likely to be eliminated under the Robinson-Patman Act, as will be shown in Chap. XVII. Assuming a reasonable degree of enforcement, this law will definitely limit the total buying advantage of the chains to the amount of savings incurred by a vendor in selling to them. To the extent that the Robinson-Patman law will prove effective, to that extent will the need for special taxation of chain stores on a graduated basis diminish, unless it is desired to take purely punitive measures against them with the definite view toward their curtailment or complete annihilation.

Aside from the buying advantage which is supposed to be possessed by chains in some ratio to the number of unit stores within the state or within the entire organization, the courts have assumed that the longer chains possess certain other advantages over the shorter ones. In reaching such a conclusion the courts have obviously resorted largely to rationalization. So far as is known, no conclusive evidence has as yet been presented on a large scale to show that the longer chains are able to earn greater net profits than the shorter chains. Yet it is because of the absence of such a relationship (between volume of sales and net profits) that the graduated gross sales tax laws were ruled invalid by the Supreme Court. Neither is there conclusive evidence that the longer chains incur lower operating expenses than the smaller chains (see Chap. IX).

To be sure, there is some evidence that the longer chains undersell independents by a larger amount and on more items than the shorter ones. Such facts were uncovered in the Florida survey conducted by one of the authors of this volume (see Chaps. VII and VIII). This would seem to indicate superior ability on the part of the longer chains as a result of greater purchasing power and economies in operation. But these facts, while showing a tendency in the direction indicated, do not reveal what prices the larger chains charge, comparatively, on goods bearing their private label. It may well be that the longer chains have been featuring lower prices on well-known products bearing manufacturers' brands, while at the same time they are charging somewhat higher prices on goods of their own brand. Because of the difficulty in making direct comparison between private label and manufacturer's brand merchandise, the chains may well claim that the prices charged on their own goods are lower. If it be true that higher prices are being charged relatively on private label goods, then the larger chains would have the advantage over the smaller ones, since the former sell a larger proportion of their goods under private brand. In either case, it would seem that the longer chains have the advantage over the shorter ones in the matter of price. Insofar as price may reflect other advantages inherent in size, it can be said that the longer chains have greater ability to pay taxes than the smaller chains. But such a conclusion can be reached only indirectly, for the lack

of concrete evidence on operating expenses and net profits according to size of organization.

Granted that the longer chains possess certain advantages in a larger measure than is inherent in the shorter organizations, an assumption that is not wholly founded on fact but is based largely on a general tendency in that direction, there is still a question as to whether the advantages increase in any definite ratio as the number of units in the chain is increased. As far as is known, no direct ratio has been established between the number of units in a chain and the advantage which that chain has in buying, operating cost, prices offered to consumers, or in net profits. Yet a reasonable distinction must be shown between chains in the different tax brackets, lest the tax classification be declared arbitrary. All that can be said is that there seems to be some relationship of this kind, but it is not so clear and definite as is implied by any of the systems of graduated license taxes enacted to date. Certainly, the wide variations in the tax brackets established by many of the state laws may be seriously questioned on this score. But as long as these brackets distinguish between stores with relatively few units the laws are on sounder ground than when an attempt is made to differentiate between the various chains whose units by brackets run into the hundreds or thousands.

The Court's Attitude toward Graduated Sales Taxes.—In their battle against graduated sales taxes, the chains have been more fortunate. In fact, they have been as successful in such efforts as they have been unfortunate in their fight against graduated license taxes. The three graduated sales tax cases that were carried before the supreme tribunal have all been declared unconstitutional.

The first of the graduated retail sales tax laws carried to the United States Supreme Court was the Kentucky statute. Kentucky had levied a tax on retail sales which varied from $\frac{1}{20}$ of 1 per cent on sales of $400,000 or less, up to 1 per cent on sales of more than $1,000,000. The law covered all retailing institutions, whether chain or independent; hence the large independent merchants were found side by side with the chain store companies in their battle to quash this tax.

When the Supreme Court handed down its decision in 1935, it was declared that the classification of stores according to the gross volume of their sales for graduated rates of taxation was arbitrary

and unequal, primarily because gross sales bear no relationship to net profits.[1] The Court reiterated this stand in the Iowa decision of 1936 and found the graduated sales tax of that state unconstitutional.[2] In the face of these unfavorable decisions it seems hardly likely that further graduated sales taxes will stand the legal test. It is possible, however, that some form of similar tax may be held constitutional. Many feel that the courts might hold valid a tax on the net profits of retailers, at graduated rates. It has also been suggested that the above decisions might not prohibit a gross sales tax at graduated rates on chain stores if they were given a classification distinct from other retailers. The courts have previously affirmed the rights of states to establish a separate classification for chain stores for purposes of taxation.[3]

From the legal standpoint it appears that graduated chain store license taxes are definitely approved by the courts. The courts have held that chain stores may be classified separately for tax purposes. Graduated sales taxes, however, have been ruled out and there is only a slight immediate possibility of a reversal of this position. But as long as it is possible to impose one type of taxation on chain stores, the chain store organizations can expect little aid from the courts in their efforts to escape the so-called discriminatory or punitive tax.

City Chain Store Taxes.—Following the example set by state governments, municipalities soon seized upon the opportunity to enact chain store ordinances. Although sporadic attempts to invoke that type of legislation had been made in the late twenties, the first municipal corporation to ratify an ordinance classifying chain stores for special taxation was Portland, Ore. During the autumn of 1931, the City Council of that city passed an ordinance providing for the licensing of retail stores starting at $6 for the first store and progressing to $50 for each store over 20.[4] The law was later ratified, by a very narrow margin, at a popular referendum.

[1] *Stewart Dry Goods Company v. Lewis*, 294 U.S. 550 (1935).

[2] *Great Atlantic & Pacific Tea Company et al. v. Valentine*, 12 Fed. Suppl. 760 (1936).

[3] See Honorable Fred L. Fox, Tax Commissioner of West Virginia, "The Taxation of Chain Stores," p. 10, a paper read at the 1936 conference of the National Tax Association.

[4] Nichols, John P., "Chain Stores and Their Special Tax Problems," p. 36, Limited Price Variety Stores Association, New York, 1935.

The vogue for the new municipal chain store tax soon spread to other sections of the country. Cities in New Jersey, New York, North Carolina, Michigan, Tennessee, Arkansas, Virginia, Missouri, and in other states have adopted this type of legislation. In many cases the laws were later repealed or quashed by the courts.[1] But the movement seemed to gather momentum with the passing of time, and now more than 50 cities are collecting special chain store taxes.

Those acts that have been invalidated by the courts have been ruled illegal largely for one of two reasons: either the ordinance was regarded as an unwarranted exercise of the municipal taxing power, or the courts looked upon the tax as discriminatory. In view of the decisions handed down by the United States Supreme Court, it would seem that municipal governing bodies would be able to enact legislation that would not be ruled out because of the latter reason. Nor should the first reason given prove particularly comforting to chain stores. More than 3,000 towns and cities in the United States are legally able to enact chain store ordinances without special enabling authority by their respective state legislatures,[2] and many others may readily secure the necessary authority from friendly state law-making bodies.

A feature of municipal taxation that proves particularly vexing for chain stores is that, in many cases, the ordinance is enacted so quickly and quietly that the chains have little opportunity to be heard before the actual enactment of the tax. The old adage, "an ounce of prevention is worth a pound of cure," apparently applies to all things including chain store taxation. From the chain store viewpoint it is infinitely preferable and much less hazardous and costly to oppose this type of legislation before its enactment, than it is to battle over it in the courts after it becomes law. There apparently is no agency whose business it is to give advance information that chain store ordinances are being considered by the respective municipal corporations. In several instances the first knowledge that chain organizations had of special local taxation was the notice of taxes due which they received from the local tax authorities.

[1] For a complete list of cities that are enforcing municipal chain store taxes and the legal status of such acts, together with the principal provisions, see Appendix K.

[2] NICHOLS, *op. cit.*, p. 40.

Incidence of Chain Store Taxation.—Since chain store taxes have been so widely applied, the question naturally arises, Upon whose shoulders will these taxes fall? It is obvious that there are only three possible places for them to rest. Barring fundamental changes in the chain store setup as a result, the tax may be shifted to the consumer in the form of higher prices; the chains might absorb it out of profits; or a combination of the two could be utilized to take care of the burden.

One may now inquire if it is really possible for chain stores to shift the tax to the consumer as they have loudly declared they must do. The answer is naturally contingent on the amount of the tax and the type of chain store under consideration. If the tax is nominal it might not be expedient to shift the burden to the consumer. If the tax is a severe one, the chain might be forced to shift all or part of it to those who buy from them. However, a tax that may be of little consequence to certain chain units, as in the department or variety store fields where large units are the rule, may be of vital importance to a chain of units with a small volume of sales each. Likewise, in highly competitive fields, as in the grocery business, it might be a much more difficult task to shift the tax to the consumer than it would be in the variety store field where the tax would fall uniformly on the vast majority of competing establishments.[1] We must appreciate at this point that even though the tax laws treat all chain stores alike and draw no lines of distinction between individual stores of varying sizes or types, actually these differences do exist and cause the tax to fall with unequal weight on various chains. Therefore, the ease with which the tax may be shifted and the necessity for shifting it will vary with the kind of business in which the chain engages and the size of the store units it operates.

Inasmuch as the chain store business is still essentially competitive rather than monopolistic and chain stores compete with independent stores as well as with one another, does it follow that they are likely to be placed at a disadvantage if they raise their prices in an attempt to shift the tax? In the case of groceries, the sales of the average chain store are approximately $50,000 annually. Such stores generally undersell the average independent merchant by an amount varying from 3 to 10 per cent.

[1] Over 90 per cent of the retail sales in the variety field is secured by chain stores.

That being the case, it follows that they would not be placed at a material competitive disadvantage unless the chain tax would cause them to raise their prices extensively. Another factor that gives weight to that conclusion is that low price is not the only reason for consumer patronage of chain grocery stores. Convenience of location, superior quality, variety of merchandise, and other reasons also appear to motivate consumers to trade at chain stores.[1]

It would seem that, except for certain of the smaller convenience-goods stores and filling stations,[2] the majority of chain stores are in a position to shift at least a portion of the tax to the consumer. Certainly it will not cause them the competitive difficulties that their proponents would have us believe.

Is it possible for the taxes to be absorbed out of chain store profits? Obviously, a chain license or sales tax larger in amount than the profits of the successful chain stores in a given line of business could not be met in this way. Chain store profits in the past, however, have been comparatively high per unit. Even many chains in the grocery business have netted average profits of close to $1,000 per store.[3] The chain stores operating in the variety, department, and apparel fields show considerably higher average earnings per store. On the other hand, filling stations are not able to secure net profits in the range of most other types of chain stores. It follows that chain store taxes imposed at nominal rates, with certain exceptions, notably filling stations, might well be absorbed out of profits; and even taxes as high as $500 per unit may not seriously hamper chain stores as a group. Undoubtedly, the taxes will fall more heavily on certain individual chains and on organizations with relatively small net profits, but they should not prove particularly burdensome to most of the chains, particularly outside the grocery field.

It is evident from the foregoing that chain store taxes of any great weight will have to be absorbed in part by the chains themselves, and the remainder would of necessity be passed on to the

[1] For a more detailed discussion of reasons for consumer patronage, see Chaps. X and XI.

[2] Most states specifically exempt filling stations from the provisions of their chain store tax laws. For a complete list of states exempting filling stations, see Appendix H.

[3] See Chap. IX for more detailed information on chain store profits.

consumer. Wherever possible chain stores will seek to shift such taxes to the consumer, but the competition from independent stores will cause them to pay part of the taxes out of profits. The tax will not fall so directly on the consumer as many would have us believe since, in most cases, a sizable portion of it will come out of chain store profits. The higher the tax, however, the more likely it is to be shifted to the consumer, to the detriment of both the chain stores and their patrons.

Effect of Chain Store Taxes.—The full effect of chain store taxes has not as yet been appreciated in the United States. Thus far the taxes have been in effect for a comparatively short time, and most of them involved relatively small amounts, since the earlier laws were less drastic. As tax rates advance, however, it is entirely possible that they may result in far-reaching changes in distribution. To date it has been very difficult to separate the effects of such taxes from other marketing factors. With the limited data and experience on this point, all that can be done is to speculate on the possible effect of these taxes rather than to state them categorically and with any degree of certainty.

One of the most publicized effects refers to the changes which chain store taxes caused in certain lines of business. In Iowa the chain store tax is blamed for the abandonment of the company-owned filling stations of the Standard Oil Company of Indiana. Likewise, the fear of chain store taxes is given as the reason in other states for transferring numerous filling stations from company-owned to independently-operated units. The chain store tax was blamed for the conversion of the James Butler chain of grocery stores to a voluntary chain. In all of these instances, however, it is generally conceded that the chain store tax was only one of a number of factors leading to the change in policy. In the case of the grocery company the primary reason for the relinquishment of its stores apparently lay in financial difficulty. In the other instances it is felt that the oil companies seized upon this opportunity to blame the chain store tax when the actual reason was that they sought to escape from the unpleasant and frequently unprofitable responsibility of operating their own retail outlets. Although this type of tax is blamed in many cases for the contraction of chain store outlets, yet until recently but a few actual cases have existed of chain stores closing up units in order to avoid punitive taxes.

According to the data in Table 52, chain store taxation has not materially affected the number of stores operated by chains or their proportion of the sales volume in the lines of trade in which they operate extensively. Indiana is a state with eight years of chain taxation experience, and an inspection of Table 52 shows that chain store trends even there follow rather closely the trends for the entire country.

Only in the filling station field has chain store taxation had any marked effect on the number of units operated or upon the volume of sales done by chain stores. In the states which include filling stations in the tax, the decrease in the number of units operated by chains is somewhat greater than the average decrease in other states during the same period of time. But as was pointed out above, the tax may have served merely to accelerate the trend from chain to independent operation in the retailing of petroleum products. In the case of grocery stores or drugstores the percentage of change in stores operated and in volume of sales made by chains in states having chain store tax laws follows very closely the change for the entire country. During the period from 1933 to 1935, when the effect of the chain store taxes should have been evident, little effect can be discerned, except in the filling station field. There has been some diminution in the number of chain units, but this has been largely compensated by the increase in sales volumes by the other units. The chain organizations have shown a trend toward fewer and larger units for some time, and chain store taxation has been only one of several factors responsible for this change, for the trend was under way several years before special taxes of any consequence appeared on the scene.

In the states where the taxes are severe, there is little doubt that chain store expansion has been slowed up. Nevertheless, as shown in Chap. II, chain stores have expanded in the past few years despite this adverse legislation, so that, rather than actually causing a curtailment of chain stores, the most that can be said is that these taxes may have slowed up further expansion.

The effect which these taxes will have on chain store profits, costs, and prices, is still problematical. As far as the authors know, no objective study has been made to determine such effects, and, until one is made in a state imposing a chain store tax, it

TABLE 52.—NUMBER OF STORES AND PER CENT OF SALES FOR CHAINS AND INDEPENDENTS, BY LINE OF BUSINESS FOR INDIANA AND THE UNITED STATES, 1929, 1933, AND 1935

Type of operation	Indiana[a]						United States					
	1929		1933		1935		1929		1933		1935	
	No. of stores	% of total sales	No. of stores	% of total sales	No. of stores	% of total sales	No. of stores	% of total sales	No. of stores	% of total sales	No. of stores	% of total sales
Grocery, and grocery and meat:												
Chain	1,346	31.8	1,213	42.5	1,174	39.4	52,618	38.7	49,664	44.1	48,239	38 8
Independent	6,394	60.2	7,563	57.5	8,628	60.5	234,082	56.3	253,036	55.6	304,398	60 7
Drug:												
Chain	126	25.7	147	33.2	152	34.5	3,526	18.5	3,760	25.1	3,744	25.7
Independent	1,494	74.3	1,414	66.3	1,354	65.3	54,585	81.2	53,341	74.0	52,855	74.2
Variety:												
Chain	217	90.8	179	90.4	175	91 5	5,377	90.1	5,400	91.2	5,658	90.8
Independent	193	9.2	194	9.6	170	8.5	6,603	9.8	6,572	8.8	6,056	9 2
Shoe:												
Chain	225	44.8	150	35.5	176	50.2	5,092	38.0	4,442	46.2	5,006	50 0
Independent	426	50.1	299	43.6	281	39.3	17,938	53.5	13,386	46.5	13,027	43.3
Men's wear:												
Chain	53	12.0	36	12.4	24	12.0	2,815	21.2	1,693	22.0	1,592	21 0
Independent	640	87.8	446	87.3	450	87.8	25,114	77.9	17,599	76.5	19,018	78 0
Women's wear:												
Chain	55	28.0	67	33.2	94	30.4	1,914	22.7	1,726	23.3	2,407	25 2
Independent	254	69.0	261	61.3	356	66.5	15,966	74 3	15,773	74.5	19,265	72.3
Filling stations:												
Chain	1,330	49 1	1,508	46 0	596	23 3	28,617	33.8	36,026	35.5	19,575	21.5
Independent	2,058	48.5	3,927	53 9	5,447	75 6	90,365	66.0	134,239	64.3	177,529	77.8

Source: Census of Business: 1929, 1933, and 1935.

[a] Indiana is the only state with sufficient experience with chain store taxation to justify comparisons based on Census data for the purpose of measuring the effect of this taxation on the sales volume and number of stores operated.

is only possible to hazard an opinion of what might be the effect of the tax on these factors.

The most important influence that chain store taxes might have is that relating to the consumer. Would the tax result in an increase of prices to the consumer, as the chain protagonists have charged? It is often claimed that chain store taxes will increase the food bill of the average family 10 per cent or more. It would seem, however, that this claim is fallacious. The competition from supermarkets, independent merchants, and other chain stores would make any chain organization hesitate before materially raising its prices. Undoubtedly, in certain cases prices have been raised and will be raised, but it is hardly possible that they can be sufficiently raised to take care of the entire tax burden. Many of the increases in prices can be traced, however, to other causes of a more general character. As long as retailing is as highly competitive as it is today, chain stores can not expect to pass on to the consumer, in the form of increased prices, more than a portion of any substantial chain store tax.

Fairness of Chain Store Taxes.—It has been repeatedly charged that chain store taxation is an unwarranted exercise of the taxing power of governmental agencies. Many fear that regulation by taxation is a most objectionable practice despite its legal precedents. The chains label these taxes as discriminatory, and they feel that they are being penalized for being efficient. They also claim that this is an attempt to compel consumers against their wishes to give more of their patronage to independent retailers and less to chain stores. Allegedly, chains do not object to paying their fair share of the taxes necessary to operate the various governmental units, but they do strenuously object to attempts at discrimination.

On the other hand, chain store taxation has been urged for three primary reasons: first, because of the need for more revenue by governmental agencies; second, because chains have a greater ability to pay taxes than their independent competitors, and ability to pay has always been an important factor in levying taxes; and third, because it is claimed that chain stores are opposed to the best interests of society, and taxation affords a potent means of curbing their further development. It is further asserted that chains enjoy certain privileges for which they should pay in the form of special taxes. At least five secondary grounds

are cited in support of this position: first, chains now escape their fair share of the tax burden; second, chain stores are the recipients of special benefits because of their peculiar form of organization, and, therefore, should pay special taxes for these privileges; third, chain stores avoid their proper share of personal property taxes because their inventories are listed for taxation at lower values, since they buy more cheaply than independent retailers, because they carry smaller inventories of stock than their competitors, and because the tax assessors do not have access to the chain store records in the distant central offices; fourth, the chain organizations are large foreign corporations controlled by absentee owners who take profits out of the local communities and should pay special taxes for the privilege of operating in the state; fifth, chain groups resort to unfair trade practices.

It is impossible at this point to discuss adequately these arguments, but they are generally based on false assumptions or simply represent half-truths. A more extensive treatment of this subject is presented in Chaps. XIII and XIV. These allegations are largely excuses for chain store taxes which have been devised by revenue-seeking agencies rather than a sound justification for them. One might well argue that the special benefits and privileges of chain store organizations are reflected in their profits and sales, and that states with corporate net income taxes and with general sales taxes will obtain proportionately larger revenues from chains.[1] It may also be argued that if chain stores should be taxed more heavily because they are more efficient than certain independent retailers, because they have a faster stock-turn, and because they have a larger volume of sales and may earn more profits, then the more capable and successful of the independent retailers also should be singled out for special taxation in order to lessen their advantages over the less efficient retailers. If the arguments that are commonly advanced are carried to their logical conclusion, taxation might be applied to the whole field of distribution to punish the more alert and energetic enterprisers in every line in order to protect the weaker members from the ravages of competition.

It would seem that a plausible case could be made for either side, but the fairness of chain store taxation, in the last analysis, cannot be decided from the viewpoint of either the chain or

[1] BUEHLER, *op. cit.*

independent groups. Rather must it be decided on the basis of its justification from the standpoint of society as a whole. Will society benefit by imposing special taxes on chain stores? Is the need for revenue sufficiently urgent to necessitate the enactment of measures that may definitely handicap one type of retailing institution to the benefit of another? In the answers to these and similar questions lies a reasonable approach to the solution of the chain store problem, although as will be shown later, taxation is but one way of coping with the chain store situation.

Summary.—The growing need for additional revenues, coupled with the desire to curb chain store growth or even to discriminate against chains, has led to numerous tax measures enacted by states and municipalities. Practically all the state laws of this type provide for graduated license taxes, according to which the levies made upon chains with a large number of store units are higher than those imposed upon chains with fewer store units. The legality of such taxes has been upheld by the United States Supreme Court on a number of occasions, climaxed by the Louisiana decision that was handed down on May 17, 1937. In the light of this last decision, it would seem that chain stores are very much at the mercy of state legislatures. There is no doubt but that other states will follow Louisiana's example and classify chains in the various tax brackets according to the number of store units operated by the chain as a whole, although the tax will, of course, apply only to the number of stores operated by the chain within the state in question.

One of the effects of discriminating against the larger chains may be to sell the respective units to their operators and thus form a so-called "voluntary" chain. This may be done in states which choose to tax the national chains too heavily or in states in which chains do a substantial volume of business. The Pennsylvania chain store tax, which became law on June 5, 1937, is a case in point. Not only is the tax relatively high ($500 for each store of a chain operating more than 500 units) but it is the first such tax enacted by a large-volume state. Such a levy therefore is even more keenly felt than the somewhat higher levy of $550 per store for chains with more than 500 units each imposed by the Louisiana law.

A more immediate effect will be that of closing down the less profitable and smaller stores. Many outlets with limited profits will thus be eliminated, operating costs may be reduced through larger stores, and the tax, when expressed in terms of sales volume, would thus be reduced in importance. This movement was given impetus by the recently enacted law in Pennsylvania. Already some of the larger chains, including the A. and P. Company, the American Stores Company, and the P. H. Butler Company, have closed a number of such unprofitable outlets. To all of this there are obviously definite limitations. It is not possible to increase the size of grocery stores, for example, beyond certain limits. Nor is it possible to reduce operating expenses progressively with increases in sales volume. Very often, the optimum point, from the standpoint of operating efficiency, may be reached at a relatively low volume level. Consequently, a consolidation of stores into larger units offers but a partial solution to the problem. If the shutdown of outlets by chains is a matter of retaliation, it is doubtful whether it will succeed in itself in stemming the tide. If, however, it represents a bona fide attempt to eliminate unprofitable stores, then it is a sad commentary on supposed chain store efficiency, and one wonders why such stores have not been closed sooner and further whether the tax does not, after all, place a premium on management efficiency. If it results in the latter it may, from the standpoint of consumers, become a blessing rather than a curse.

A third effect of the chain store tax will be to accelerate the trend toward chain-owned supermarkets. To attribute the opening of supermarkets by chains entirely to the tax laws is to disregard actualities and recent history. Supermarkets have been a cause of worry to the chains for several years. One way of meeting this new competition has been in the chain's policy of opening similar places of business. This was done even in states which do not have any chain store tax laws, as in Ohio. It is felt, however, that heavy special taxes on chains based on the number of units will add strength and support to this policy. Partly because of the lower overhead inherent in the supermarket method of operation, but largely because of the average volume of each of these establishments, the tax would become less burdensome. It is probable, however, that in time the same result would be attained

if it is assumed that the supermarket has a definite and permanent place in our retailing structure and if we further assume that the corporate chains in their acquisitive desire would attempt to effect all possible economies in retail distribution.

In the various decisions handed down by the Supreme Court, it has been stated that the Court is not concerned with the extent of the tax, so long as the right to levy a given tax has been established. Nevertheless, the majority decision in the Louisiana case stressed the fact that the large national chains enjoyed certain advantages which the smaller chains did not have and cited the large amount which the A. and P. Company obtained in 1934 in rebates, secret allowances, and brokerage fees, although these have been outlawed by the Robinson-Patman Act and will presumably be eliminated in the future. This specific citation, together with the numerous references to the large chain's superior advantages, would seem to imply that the Supreme Court *is* concerned with the reasonableness of the amount of the tax that can be levied upon chains. Furthermore, the constitutions of many of the states afford a measure of protection against taxes that are so severe as to be confiscatory. Thus, while punitive license taxes have been legalized and no limit has been placed upon the amount of such levies, in actual practice these taxes will probably be much below $1,000 per store and probably around one-half that amount. To what extent such taxes may be absorbed by the corporate chains or passed on to the consumer has already been discussed at some length, as well as the test of what constitutes fairness in such legislation.

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CHAPTER XVII

RECENT LEGISLATION AFFECTING CHAINS

For generations rugged individualism and free-for-all competition characterized American business. Business men struggled for the consumer's dollar under few restrictions. Individual enterprises were small, and when a business man was overwhelmed by the opposition he merely considered that he lost in battle to more aggressive, more fortunate, or more skilled competitors. The casualties of this ruthless warfare were appalling. The battlefields of business were strewn with the corpses of business firms that were unable to withstand the ever-advancing forces of commercial progress. As long as the rivalry was confined to small competing units, governmental aid was seldom sought by hard pressed business men. They soon realized, however, that their chances of success and the rewards of their victory were greatly enhanced if they operated on a large scale. As a result, corporations were formed, mergers effected, and control concentrated in few hands. It was then that the small independent began to feel that he was no longer battling on an equal footing with his larger rival. He did not regard himself a modern David taking on the new Goliath. To his way of thinking his giant competitors were waging unfair warfare against him, which was frequently only too true as many investigations disclosed. Unable to safeguard himself under the old rules of competition, the small business man turned to the government for legislative protection.

Anxious to preserve competition and prevent unfair practices, governmental agencies sprang to the defense of the small business man. Anti-Trust laws were promulgated, and certain businesses were subjected to stringent governmental regulation. All effort was directed to break up and prevent the formation of trusts and monopolies, so that competition may hold sway over the markets. But, despite governmental intervention, large-scale business prospered and the trend toward bigger enterprises continued unabated.

In the field of retailing governmental restrictions accomplished little in curbing the progress of "big business." The Sherman Anti-Trust Act, the Clayton Anti-Trust Act, the act creating the Federal Trade Commission, and other legislative measures failed to give the small merchant the degree of protection he desired. The clamor for specific legislation against the large-scale retailers produced several kinds of legislation aimed at mass distribution in general and chain stores in particular, *viz.*, chain store taxes, the Robinson-Patman anti-price discrimination law, and the state fair-trade laws are three of the more important types of the new legislation. The preceding chapter treated in some detail the first type of legislation and in the present chapter an attempt is made to discuss the last two.

Purpose of Recent Restrictive Legislation.—In general, the purpose of recent legislation directed against chain stores and other large retailers is, with the exception of taxation, twofold. First, it attempts to strengthen competition by curtailing or limiting some of the advantages which chain stores have enjoyed through discriminatory discounts, unjustified advertising allowances, unearned brokerage fees, and objectionable "loss leader" selling; and second, to equalize some of the special benefits which chains derive either through size or through advantages peculiar to their method of operation.

The Patman Investigation, conducting hearings in connection with pending legislation, revealed an appalling amount of apparently unfair discrimination in the form of these special discounts, advertising allowances, and brokerage fees granted by many manufacturers to chains in a greater degree than to independent merchants. For example, a manufacturer in the food field used a plan of progressive discounts, increasing them according to volume from 10 cents per unit to 25 per cent per unit. It was found that only three companies (all chains) purchased in sufficient quantities to benefit from the maximum discounts. Furthermore, it was even previously admitted by some manufacturers that the bargaining ability of the buyer was frequently a prime factor in determining the amount of the allowance or discount.[1]

[1] Federal Trade Commission, "Chain Stores—Special Discounts and Allowances: Tobacco," p. 2, U.S. Government Printing Office, Washington, 1934.

The legislation directed at large-scale merchandising is envisaged as a protection for the individual business man, and all that he has done and will do for the American community. It is primarily a device for reinforcing the competitive position of small merchants. Sponsors of such laws claim the measures are bolstering the capacity of the neighborhood store to stand against the onsweep of centralization in the distribution field. Once more *laissez faire* is regarded as inadequate to meet new conditions.

THE ROBINSON-PATMAN ACT

Reasons for Enactment.—The Seventy-fourth Congress witnessed several attempts to amend the Clayton Act in the interest of the small-scale distributor. This manifestation of concern for the local retailer was stimulated by three distinct factors. The first and foremost was the desire of Congress to curb or eliminate some of the abuses of which chains have been accused (and found guilty in many instances) in order to minimize their competitive advantage when secured through unfair means. Impressed by the seeming injustice of the disclosures of the Patman Investigation and urged on by those who had considerable at stake, Congress passed the bill in the closing days of the session.

A second reason for the passage of the Robinson-Patman Act at that time was that it was a crystalization of a growing sentiment against "big business." It had become increasingly popular to lay the blame for our economic ills on chain stores and other forms of big business, and here was an opportunity to demonstrate disapproval of this growing "evil." The opponents of bigness were growing apprehensive lest the business and industrial leviathans get out of hand and destroy the millions of independent entrepreneurs, and here was an opportunity to check that tendency. This sentiment was voiced by President Franklin D. Roosevelt when, in a message to Congress on June 19, 1935, pertaining to tax methods and policies, he declared "size begets monopoly" and that "without such small enterprises our competitive economic society would cease."[1]

The third factor that apparently led to the passage of this law was the widely held belief among independent distributors that the National Industrial Recovery Act with its codes of fair

[1] *Congressional Record*, Seventy-fourth Congress, first session, June 19, 1935, Vol. 79, No. 126, pp. 10041–10042, 10093–10094.

competition had been highly beneficial to them since it had attempted to restrain certain aspects of competition which were deemed repugnant to smaller business men. Wholesalers, especially, felt the need for something to replace the codes and they seized upon the Robinson-Patman Act as a partial substitute.

Provisions of the Act.—This act is at once an amendment to the Clayton Act and an entirely new law. Section 1, which amends the Clayton Act, makes it unlawful for sellers to discriminate in price between different buyers of like grade and quality where the effect of such discrimination may be substantially to lessen competition, to tend to create a monopoly, to injure, destroy, or prevent competition with any person who grants or knowingly receives the benefit of such discrimination or with customers of either of them.

Certain defenses under the law are set up by this section. If the price differentials make only due allowances for differences in cost, including cost of manufacture, sales, and delivery for varying quantities, they are not discriminatory, except that the Federal Trade Commission may determine quantity limits where it finds that available large-scale purchasers are so few as to render quantity price differentials unjustly discriminatory or promotive of monopoly. Under such conditions, quantity price differentials must be limited to such differentials as the Federal Trade Commission shall prescribe.

The amendment to the Clayton Act permits the selection of customers where done in good faith and when not in restraint of trade. It permits price changes under certain specified conditions to meet market fluctuations, to dispose of perishables, to avoid obsolescence of seasonal goods; it permits distress sales under court order, and bona fide closing-out sales. If, however, anyone feels that he is the victim of discrimination in price, services, or facilities furnished, he may enter a complaint. If proof of such discrimination is given at a hearing or otherwise obtained by the Commission, the burden of justifying the deviations rests with the accused, and he must refute the testimony against him, or the Commission may order the discrimination stopped. Several bases for justification are open to the defendant. He may allege that the so-called "discrimination" was made in good faith to meet competition; that the transactions were in intrastate rather than interstate commerce; that the price

differentials were the result of variations in actual costs; that the goods in dispute were sold for export; or that services and not goods were the subject of sale.[1]

The act further attempts to outlaw the practice of giving brokerage payments to a so-called agent who actually works for a buyer under the latter's control regardless of the services actually performed. A broker may only collect a commission when he acts as a bona fide third party. If he serves as a representative of the seller to locate buyers, or as a representative of the buyer to find sources of supply, and is really in business for himself, he is discharging the true functions of a broker, insofar as the vendor is concerned, and may be properly compensated. When one acts, however, for or under the control of the buyer he is not a true broker and no seller can be expected to pay this intermediary for such service.[2] Furthermore, according to the first official interpretation of this provision of the law issued on June 5, 1937, by the Federal Trade Commission attorneys, the law prohibits "payment of brokerage fees from sellers to buyers directly or indirectly."[3] This means that even an independent broker is not entitled to any fee from a vendor if all or part of it is passed back to the buyer, as was done by the Biddle Purchasing Company and some others. It is on this ground that this company was ordered by the Commission to cease and desist from such practices. The compensation must be primarily for services rendered to the seller although the buyer may also benefit therefrom, but not in a monetary way.

Advertising allowances to selected customers are also attacked by the Robinson-Patman Act. In the words of the act, it is "unlawful . . . to make any payment . . . to . . . a customer . . . in consideration for any services . . . unless such payment . . . is available *on proportionally equal terms to all other customers* competing in the distribution of such products."[4] In other words, it becomes unlawful to offer advertising allowances as subterfuges for special price concessions. If they are made

[1] For an analysis of the legal implications of the Act, see Nelson B. Gaskill, "What You May and May Not Do under the New Price Discrimination Law," The Kiplinger Washington Agency, Washington, 1936.

[2] Report of Mr. Utterback, Committee on the Judiciary, on HR8442, Seventy-fourth Congress, second session, p. 15.

[3] *The Columbus Dispatch*, June 5, 1937.

[4] Italics supplied by authors for emphasis.

available to one buyer, the seller has to offer them to all on "proportionally equal terms."

Discrimination between purchasers is further restricted by requiring sellers to offer services or facilities for processing, handling, or selling to all buyers on substantially the same terms. And what is more, it is not only unlawful for the seller to discriminate in favor of certain buyers but it is also contrary to law for a business man knowingly to induce or receive a discrimination in price which is prohibited by any of the provisions heretofore mentioned. The buyer as well as the seller becomes guilty under the provisions of this Act.

The Robinson-Patman Act not only amended the Clayton Act, but it also introduced several new provisions into Federal legislation pertaining to marketing. Specifically, the act contains three sections of new law. The procedure for the Federal Trade Commission on cases pending or in process under the original Clayton Act is specified in the first section of the new law. The second section exempts cooperative associations from penalties under the act for returning patronage dividends to members, although in all other respects the law applies to cooperatives as to other types of business. The third section contains the following three provisions, which, overlapping in part the provisions of the amended Clayton Act, confuse the meaning of the new law:

1. It is unlawful to discriminate by giving discounts, rebates, allowances, or advertising-service charges to one purchaser which are not accorded to competitors who buy a like grade, quality, and quantity.
2. It is unlawful to sell in one part of the country in order to destroy competition or to eliminate a competitor by granting lower prices than those exacted elsewhere in the United States.
3. It is unlawful to sell at unreasonably low prices to destroy competition or to eliminate a competitor.

For violation, a penalty of $5,000 fine, imprisonment of not more than one year, or both, is provided by this part of the act, thus making it a criminal statute.[1]

Principal Differences in the Robinson-Patman and Clayton Acts.—The Clayton Act declares price discrimination unlawful

[1] BECKMAN, T. N., and ENGLE, N. H., "Wholesaling Principles and Practice," p. 595, Ronald Press Company, New York, 1937.

only "where the effect of such discrimination may be substantially to lessen competition or tend to create a monopoly in any line of commerce." The Robinson-Patman Act adds to the above, "or to injure, destroy, or prevent competition with any person who either grants or knowingly receives the benefit of such discrimination, or with customers of either of them." This last extends the prohibition to include any discrimination whose detrimental effect may not be general. Under the old law, a chain might have established a store in a small town and by means of discriminatory prices received might have forced out one or more local merchants, but so long as some independents still remained there would be no general effect upon competition. Now, the removal of a competitor is a violation of the law if it is accomplished by means declared illegal by the amendment.

The Clayton Act formerly permitted a discrimination in price based on "differences in the grade, quality, or quantity of the commodity sold, or that makes due allowance for differences in the cost of selling or transportation. . . . " The Robinson-Patman Act deals only with commodities of like grade and quality and permits price differentials based on quantity only, to the extent to which differences in quantity reflect differences in the cost of manufacture, sales, or delivery resulting from differing methods or quantities in which the commodities concerned are sold. Hence, the prohibition is limited to goods of like grade or quality, and the law is broadened to permit also allowances due to differences in the cost of manufacture. Since the Robinson-Patman Act uses the words "due allowance" rather than "not to exceed," it is presumed that the rule of reason will apply and that the words "due allowance" will be interpreted to mean reasonably more or less than the savings effected. Differences in cost based on quantity can hardly be determined with mathematical precision. It is believed, therefore, that the courts and the Federal Trade Commission will take the position that a reasonable approximation of cost differences is sufficient to establish the existence or nonexistence of discrimination, provided, of course, good faith is present and a bona fide attempt has been made to comply with the law.

Under the new law or amendment the Federal Trade Commission has power to set quantity limits beyond which quantity price differentials will not be permitted even when supported by

the differences in the cost of manufacture, sale, or delivery. This can be done only after investigation and hearing. This proviso is based on the assumption that even an admitted economy, which is possible only to a few buyers of tremendous size in a given trade or industry, may become an instrument to lessen competition or to tend to create a monopoly.

The Clayton Act permitted "discrimination in price in the same or different communities made in good faith to meet competition." The Robinson-Patman Act does not permit such things but permits a seller charged with violating the act to rebut the prima-facie case against him by showing that his lower price was made in good faith to meet the lower price of a competitor.

The Clayton Act contained no prohibitions against discrimination in the type of services rendered by a seller for different buyers, nor did it prohibit any allowances for services or special facilities given by a buyer for the benefit of the vendor. The Robinson-Patman Act requires the seller to make the payment or consideration available on "proportionally equal terms" to all other customers. As to what constitutes proportionally equal terms is not very clear, although it is presumed that either physical units or dollar volume can be used as a basis.

Under the Clayton Act, the burden of proof that a person had violated the act was upon the Federal Trade Commission. The Robinson-Patman Act places the burden of proof upon the person charged with the violation, and it thus creates a presumption that upon complaint the discrimination exists and it is up to the accused to show that the discrimination does not exist or that it is justified. The enforcement of the law is thus made much simpler, but introduces a rather new principle in our jurisprudence.

The Clayton Act does not prohibit the granting of commissions, brokerage, or other compensation, or any allowance or discount in lieu thereof to persons acting for or on behalf of the purchaser. The amendment prohibits such payments or allowances "except for services rendered." In other words, brokerage services to a vendor, who pays the commission or fee, must be bona fide and must not have the effect of a payment by a seller to a buyer.

The Clayton Act applied only to persons granting the price discrimination. The Robinson-Patman Act is not one-sided.

It makes it unlawful for any person knowingly to induce or receive a discrimination in price of the type previously discussed, as well as making it unlawful for the vendor to give such discrimination. Both parties may be held guilty under the new law, which is a considerable departure from previous practice and tends to put teeth into the law by removing some of the pressure to which sellers have been subjected.

The Robinson-Patman Act contains provisions dealing with price cutting, which are absent in the old Clayton Act. It now becomes a criminal offense to sell at unreasonably low prices in order to destroy competition.

Under the Robinson-Patman Act cooperative associations are specifically permitted to pay patronage dividends, and such payments are not regarded as discriminations.

Effect of the Robinson-Patman Act on Chains.—The immediate effect of the passage of the new law was psychological; it frightened business men. It gave them what many called "The Robinson-Patman jitters." Rather than be cited under the act, many producers discontinued discounts that they feared might be labeled discriminatory. The instinctive desire to avoid violating any legal mandate drove numerous buyers and sellers to cover. The law focused attention on certain prevalent abuses. Fear, however, was not the only motive that made sellers refrain from granting excessive discounts to large buyers. Many manufacturers seized upon the new law as an excuse for discontinuing certain unprofitable price policies. The act was a convenient alibi for taking a step that many sellers had heretofore lacked the courage to take.

A more lasting effect of the law is that concerning manufacturers' price structures. There is little doubt but that manufacturers' prices will be revised and usually to the detriment of the chains and other large buyers, including among them some of the large wholesalers and voluntary chains that buy through centralized purchasing offices. In many cases the discounts given to large purchasers were much greater than the economies effected as a result of the large volume of business or quantity bought. But in some instances, the Robinson-Patman Act may serve as a boomerang for the small buyers who so enthusiastically urged its passage. Careful analysis of differences in the cost of manufacture, handling, and selling when dealing with chains may show

that the latter do not receive so large a price differential as the resulting economies justify.

One effect that will very definitely work to the detriment of chains is that many manufacturers will dispense with allowances altogether in preference to attempting to offer them to all customers on *proportionally equal terms.* In many cases, the difficulties in attempting to apportion allowances among small as well as large buyers will make their use impossible. For example, if an advertising allowance of $8 per 100 cases is offered to chain stores, what should the manufacturer offer the small retailer who buys but one case? Obviously, 8 cents would buy little in the way of advertising. The obstacles in the path of a legal application of allowances will force many to abandon their use entirely, as has already been done in a number of cases.

In order to circumvent these disadvantages, it is very probable that chains may enter into agreements with producers to buy their entire output. In such an event, there is but one customer served by a manufacturer, hence there can be no question of price discrimination. Likewise, it is probable that some manufacturers will choose to sell only to chains and other large buyers, and as long as each is offered substantially the same price the element of discrimination is not a factor. Some chain organizations are already following the above practices. From the standpoint of the manufacturer, this appears to be a very dangerous procedure as he limits himself to one or a very few outlets. He is in a position to be squeezed by the chains for lower prices, and he may ultimately be squeezed out of business altogether. At any rate, by restricting his outlets the manufacturer places himself entirely at the mercy of these customers.

Although this new act has been in effect only a comparatively short time, a very noticeable trend toward the use of private brands has already become evident. Large buyers find it more profitable to push their own brands rather than to promote the sale of merchandise bearing the manufacturer's label. An inspection of the shelves of almost any large chain grocery store is likely to show a considerable quantity of privately branded merchandise. The trend toward private brands is not entirely traceable directly to the Robinson-Patman Act since the tendency was very definitely in that direction before the law was enacted. Other recent legislation, especially the fair-trade laws, tends to

produce the same effect. It is true, however, that the Federal law accentuated the movement toward private brands.

As it becomes increasingly difficult to buy national brands advantageously, there is likely to be a tendency for chain systems to engage more extensively in manufacturing. Some already are processing their own goods, and, in view of the limitations placed upon chains by the Robinson-Patman Act and other recent legislation, the movement is sure to gain momentum. The net result may be that chains will exercise even a greater influence on our economic life by controlling a large share not only of the distribution of goods but of the production as well.

A further result of the new law is that it will deprive chain systems of brokerage fees and commissions which some of them have been in the habit of collecting through "bogus" brokers. Only independent brokerage firms can exact fees for services performed, and organizations like "Procon," a so-called "cooperative" brokerage firm established by a number of grocery chains, are not entitled to charge sellers for facilitating distribution. In the eyes of the law, these organizations are formed for the purpose of "gleaning unearned fees." The chains which formed Procon attempted to circumvent the law by claiming exemption under Section 4 of the act which specifically exempts cooperatives. The Federal Trade Commission maintained, however, that in fact Procon was not a cooperative but a subterfuge for exacting fees from sellers while acting in the capacity of the buyer's agent. In the spring of 1937 the organization was dissolved before a judicial decision could be secured,[1] but in view of the attitude of the Commission and the wording of the law, there appears to be little doubt but that brokerage organizations of this type will be banned.

FAIR-TRADE LEGISLATION

While the Robinson-Patman Act is an attempt to remove some of the alleged abuses charged to chains, another type of legislation aimed primarily at price-cutting retailers has made its appearance. Masquerading under the title of "fair-trade laws," statutes

[1] *United States of America before the Federal Trade Commission in the Matter of Procon Grocery Service Co., Inc., et al.*, Docket No. 3076, Complaint Issued on March 12, 1937, and Order Closing Case Issued on May 19, 1937.

legalizing resale-price maintenance have been enacted by 42 states, the assumption being that prices must be maintained lest "unfair practices" creep in. This is indeed a most peculiar distortion of the term "unfair."

California was the first state to inaugurate a fair-trade law when in 1931 its legislature approved a statute designed "to protect trade-mark owners, distributors, and the public against injurious and uneconomic practices in the distribution of articles of standard quality under a distinguishable trade-mark, brand or name." This type of legislation aims to put an elevated floor under the prices charged for branded items of certain manufacturers. The laws generally stipulate that contracts containing provisions "that the buyer will not resell [certain commodities coming under the law] except at the price stipulated by the vendor" are not illegal.[1] Such acts further stipulate that selling below cost, the use of loss leaders, and certain unfair practices are illegal. The California statute defines cost "as including the cost of raw materials, labor and all necessary overhead expenses of the producer; and, as applied to distribution, 'cost' shall mean the cost of the article or product to the distributor and vendor plus the cost of doing business by said distributor and the vendor,"[2] although in some states a specified percentage is added to the purchase price of the goods in determining cost under the law.

Many fair-trade laws were enacted in 1935 and 1937, and, though there was some doubt at first as to their constitutionality, this barrier was removed on Dec. 7, 1936, by an epochal decision of the United States Supreme Court. On that day, the Court declared the California and Illinois fair-trade laws entirely constitutional. At present, in all but six states a manufacturer has the legal right under state law to fix minimum resale prices for his products and may insist that those prices be respected.[3]

[1] Chap. 278, Statutes of California, 1931.

[2] See Chaps. 260 and 504, Statutes of California, 1933, and Chap. 477, 1935. The 1935 amendment substituted for the words " 'cost' shall mean the cost of the article or product to the distributor" the "invoice or replacement cost, whichever is lower."

[3] The six states that do not have fair-trade laws at present are: Texas, Missouri, Mississippi, Alabama, Vermont, and Delaware. There is a distinct probability that at least two of these states will enact fair-trade legislation when their legislatures next convene.

The Federal Resale-price Maintenance Legislation.[1]—In response to persistent pressure from independent retailers, wholesalers, and certain manufacturers for protection against price cutters, Congress enacted a fair-trade law during the summer of 1937. Previous to the enactment of this law the courts had held that contracts between manufacturers and wholesale and retail merchants that fixed consumer prices violated the Sherman Anti-Trust Act. There were but few methods by which producers could control resale prices. The exclusive agency and consignment selling were the most effective means of curbing the activities of price cutters, but the obvious disadvantages of utilizing these methods restricted their adoption by manufacturers.

The new Federal law accorded to interstate commerce the same privileges which the various state laws accorded to intrastate commerce. In effect, the Federal fair-trade law, known as the Miller-Tydings Act, amends the Sherman Anti-Trust Act of 1890, which provides that every contract, combination in the form of trust or otherwise, in restraint of trade or commerce among the several States, or with foreign nations, shall be illegal and punishable. The new law exempts from the operation of the older act all agreements prescribing minimum prices for the resale of a commodity which carries the trademark, brand, or name of the producer or distributor and which is in free and open competition with commodities of the same class produced or distributed by others whenever the state in which the resale is to be made regards such agreements as lawful either under a statute, such as a fair-trade law, or by common law, or by public policy of the state. Price maintenance agreements of this character do not constitute unfair competition under the Federal Trade Commission Act of 1915, for such agreements are vertical in nature and do not involve a conspiracy among similar enterprises in restraint of trade. This means that the new law still does not authorize "any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between whole-

[1] For a more detailed discussion of resale-price fixing under the fair-trade laws, see "Resale Price-Fixing Under the Fair Trade Laws," *Business Week*, Aug. 28, 1937, pp. 37–44; and ZORN, BURTON A., *et al*, "Business Under the New Price Laws," Prentice-Hall, Inc., New York, 1937.

salers, or between brokers, or between retailers, or between persons, firms, or corporations in competition with each other." The latter are agreements of a horizontal character and are still illegal.

Alleged Benefits of Fair-trade Legislation.—Allegedly, the fair-trade laws are designed to eliminate those practices which curb free and open competition. If that is true, it follows that business should derive certain benefits if the laws have been soundly conceived.

The manufacturer benefits by making contracts which enable him to fix the minimum resale price of branded merchandise. In the words of the United States Supreme Court, he profits by this legislation because "The primary aim of the law is to protect the property—*viz.*, the good will—of the producer which is still his own. The price restriction is adopted as an appropriate means to that perfectly legitimate end and not as an end in itself."[1] In other words, the laws are supposed to benefit the manufacturer by shielding him from unscrupulous price cutters who may do him harm by injuring his good will. The producer thus secures a degree of control over the market for his goods which he hitherto did not possess.

The wholesaler benefits from this legislation through recognition of his margin by law and by having his market protected against the attacks of price cutters. In some degree, the independent retailer gains the same advantages. He is protected against unrestricted price cutting; the large-scale merchants are deprived of an effective competitive weapon; and the independent is entrenched more firmly in our distributive structure.

When the benefits to the consumer are appraised, one is hard put to justify legislation of this type. The question naturally arises, was the consumer expected to profit? It seems contradictory to claim that buyers benefit by the enactment of legislation that has for its aim the raising of prices. The proponents of these laws, however, aver that the consumer is served by fair-trade acts as competition is saved by preserving the competitor. Furthermore, it may well be that usual price cutters will charge more for nationally advertised goods and less for their private-brand merchandise. Similarly, independents may, because of their ability now to sell nationally advertised items at better prices, charge lower prices on items not so well known to the public.

[1] "Now They Can Fix Resale Prices," *Business Week*, Dec. 12, 1936.

Administration of the Law.—Administering a law which so deeply affects all retail outlets within a state is a herculean task. Without the proper agencies for enforcing legislation of this type, most states have proceeded with caution. At the present time only in the drug, liquor, and publishing trades has the law been widely applied, although the food stores of some states are also operating under its provisions.

Legislation of this type will only be effective in so far as it is enforced, and that necessitates the policing of thousands of retail outlets. It means also that the multitude of stores affected must be kept informed of the most recent minimum prices. When goods are sold through many outlets, this becomes a rather expensive procedure. For reports of violators the state Fair Trade Committee (usually a private organization of interested parties without legal status) generally relies on complaints from merchants in the vicinity of the alleged law breaker; this may be an effective, but in many respects a questionable, method of enforcing our laws. The violator must then be warned by registered mail to cease and desist. If the violation continues, he is confronted with the charge and is brought into court. Consequently, the effectiveness of the law is dependent largely on its administration, which in turn is predicated upon the number of manufacturers who desire or are coerced by distributors to operate under its provisions.

Effects of the Fair-trade Laws.—Since these laws deal fundamentally with prices, the first approach to a consideration of their effects is probably from that viewpoint. At what level will prices be set by those manufacturers who are permitted under the law to name the minimum resale prices of their products? Will they be set high, will they be set low, or will an attempt be made to arrive at a compromise price? If the producer chooses to set prices at a level which will enable the high-cost retailer to remain in business, what becomes of the savings of lower cost merchants? There does not appear to be any way of passing that saving on to the consumer, at least not directly on the goods affected. If the price is set for the low-cost distributor, will other merchants handle the goods, and, if they do, can they successfully compete? Most certainly, tremendous pressure will be, and is being, exerted to set profitable margins for the less efficient retailers. Already movements are on foot to guarantee 40 and 50 per cent margins on certain items to certain classes of merchants. The

potential dangers to consumers from so-called "fair-trade laws" would appear to outweigh the damage to producers that lies in price cutting, as the Federal Trade Commission maintained some years ago.

Fortunately, to date most manufacturers operating under such laws have been sufficiently sagacious to set the minimum prices at reasonable levels. In many cases the prices do not allow even a normal margin for the average retailer but even then they are higher than they formerly were on items which were used as a football by price-cutters. Since there are still more independent outlets than chain units, and if the effect will be for independents to lower the prices on many of their items because of the more reasonable price they now secure on nationally advertised merchandise, the consumer may not suffer in the end. Much, of course, depends on the farsightedness of manufacturers, wholesalers, and retailers who choose or who are forced to operate under the law.

So far, little attention has been given to the consumer in this legislation and only one state, Wisconsin, established an agency to determine a reasonable price. In all other states the consumer is left to the mercy of manufacturers whose primary concern may not be the welfare of society but the prosperity of their own particular business.

The actual effect of this legislation on prices is now a matter of mere conjecture, since the laws have not been in force a sufficient length of time for reliable objective measurement. If scattered reports can be relied on for a true picture of the situation, it would appear that so far the laws have had a leveling effect. The prices on nationally branded merchandise have been raised by price cutters and lowered by other retailers who found it expedient to sell at or near the minimum prices set by producers. The trend of prices, however, has been upward, although other factors in addition to fair-trade legislation are accentuating this movement. The price-cutting possibilities of private brands are acting as a check on unreasonable price increases on national brands.

Inasmuch as loss-leader selling on national brands is now largely within the control of the manufacturers, chains and other large distributors will lose an important patronage appeal. No longer will chains be able to undersell on national brands unless the

producer gives his approval. That this will cause a vast change in chain store merchandising is plainly evident. For the moment, at least, independents will be placed in a more favorable competitive position. They will be able to feature national brands without fear of having consumers find the same products sold at much lower prices in chain stores.

Working hand in hand with the Robinson-Patman Act, the new legislation will spur chains to substitute private labels for national brands. Unable to offer lower prices to consumers on national brands and rendering fewer services, chain stores will find it necessary to appeal to the bargain hunting instincts of consumers by featuring their own private brands at apparent reductions.

Net Effect of Recent Legislation.—The object of the recent wave of marketing legislation has been quite definitely to increase the influence and competitive position of the independent merchant and, despite certain warnings to the contrary, there appears to be little likelihood of failure to accomplish this end. Deprived of certain purchasing and price-cutting advantages, the big distributor will no longer be the unconquerable competitor he has been in the past. The small business man will find wider opportunities in the field of distribution, and emphasis on size will tend to be diminished.

Less discrepancy between chain and independent prices on identical goods appears to be a logical result of the new laws. If effectively enforced, the Robinson-Patman Act will remove some of the unfair concessions chain stores exacted from manufacturers, and it is entirely probable that independents will be able to buy at better prices than they have in the past. Likewise, the fair-trade laws tend to equalize prices, but in this instance it may be at the consumer's expense. Present indications point to higher prices for national brands in an attempt to keep independent merchants in business. Whether consumers will fare better by paying somewhat higher prices for the privilege of retaining the social and other benefits of a competitive economy that is dotted by numerous small business enterprises is for the future to determine.

CHAPTER XVIII

FACING THE CHAIN STORE PROBLEM

At long last we are now in a position to face the chain store problem squarely. Supported by an objective approach to the problem and by all the reliable facts that could be mustered to throw light on it, we are perhaps better fitted to pass judgment on the various solutions that have been presented from time to time than are those who are either biased in their point of view or are unsupported by factual evidence. Having no axe to grind, it is much simpler to present both sides of the question, to express opinions warranted by facts and sound logic, and to let the chips fall where they may.

To repeat, the chain store problem, as viewed in this volume, is largely a question of what the public policy shall be; of what attitude government, which is the public arbiter, shall adopt toward chains. In essence, it resolves itself into a series of questions such as the following: Shall chain stores be let alone? Shall they be completely eliminated from our economic system? Shall they be regulated like the public utilities and certain transportation agencies? Or shall they be permitted to function under certain restrictions? If any restrictive legislation is found to be desirable or essential, what principles might govern such legislation and how far may it go without serious handicaps to the public? In this final chapter an attempt will be made to supply some answers to these questions and to indicate the line of reasoning on which they are based and the extent to which those answers suggest themselves from the analysis presented in the preceding chapters of this book.

Let Chains Alone.—In many quarters it is argued that no interference whatsoever is necessary and that chains must not be singled out over other types of retailing for any punitive or restrictive legislation. Persons favoring this position invariably regard any legislation against the chains as punitive, regardless of whether it is intended as such. In support of their position, they

cite a number of benefits and blessings which the chains have brought to the people of the United States and call attention to the contribution which they have made to the efficient development of distribution in this country.

Those who oppose any interference with the normal functioning of this distribution giant claim that chain stores, through their large organizations, are in a position to offer systematic help to the farmer in marketing the latter's products. They can move surplus crops through mammoth advertising campaigns and by placing special sales emphasis on commodities on which a glut is threatened. They also help the farmer, because they tend to promote cooperative marketing of farm products, for it is much easier for chains to work out arrangements with such groups than with individual farmers. It is a relatively simple matter for a few chain executives to confer with a few farm leaders and effect agreements that are of benefit to the farmers.

It is alleged that chain stores are an equal blessing to the manufacturer. Mass production in the United States is dependent to no small degree upon the consumer's ability and, perhaps, also willingness to absorb the increased output. This is, in turn, greatly facilitated by the effective distribution mechanism which the chains have developed. Mass distribution not only makes possible but further extends the opportunities of mass production. Furthermore, through their tremendous advertising appropriations which run into the hundreds of millions of dollars, chains exert a great influence over the purses of millions of consumers. They may thus popularize manufacturers' brands and reduce the need for the manufacturers' advertising and sales promotional work. At the same time, they offer a ready market for the manufacturer and an exceptionally good credit risk. Finally, through their advance buying, chains presumably exercise a stabilizing influence on industry.

Chain stores are also alleged to be a blessing to the various communities in which they choose to locate their units. They enlarge the trading areas of the small town, attract business from the surrounding territory, and build trade for the community. Independents share in this trade as well as the chains. They benefit the community in still another way. A substantial part of their annual receipts is spent in the localities in which the chain units operate. Some of it is spent for wages, some in rentals paid

to local landlords, some in local newspaper and handbill advertising, and the remainder for other expense items locally incurred.

It is even claimed that one of the greatest beneficiaries of the chains are the independents who are supposed to be hurt the most. Chains have fostered cleanliness and sanitation in the stores, courteous treatment of customers, and the application of scientific management to retailing. They put a premium on efficiency and a prize on better methods and improved techniques for the performance of the retailing functions. All retailers are said to have benefited from the process. In order to remain in business, the alert and aggressive independent merchants learned from their new rivals and profited by their example. They remodeled and modernized their stores, simulated chains in their merchandising techniques, formed cooperative buying and advertising groups, and finally many of them joined voluntary chains.

But the consumer is said to have benefited most from the chain method of distribution. He is supplied with fresher merchandise. This is made possible by the more rapid stock turnover in chain stores and through more scientific selling practices. Emphasis is placed on dependable quality in merchandise. The tremendous buying organization of the chain brings the most desirable goods from every corner of the world to the smallest towns in which they do business. And all this is accomplished at a lower cost, which results in lower prices to consumers. It is claimed that the savings effected through these lower prices approximate three-quarters of a billion dollars a year and indirectly amount to much more through the lower prices charged by competing independent stores which are forced to follow the example of the chains.

Thus runs the argument against any interference with chains. Chain stores, it is asserted, have benefited the farmer, the manufacturer, the retailer, and the consumer and have helped rather than hampered the development of small communities. These stores have been with us from time immemorial; they are a venerable institution. They have revitalized the American distributive structure and substituted efficient mass distribution for the older middleman system which has long outlived its usefulness. In the last analysis, proponents claim, the value of chain stores depends upon the savings effected for consumers. From that standpoint, they are indeed great public benefactors, as already

shown in Chaps. VII and VIII, where prices charged by chains are compared with those prevailing in independent stores. Consequently, they should be let alone to function in a free and untrammeled competitive system.

Just how much truth there is in these claims in favor of chain stores can be gleaned from a careful study of the material presented in the preceding pages of this volume. Obviously, most generalities are inaccurate and frequently false. It is altogether too presumptuous to assume that the chain method of distribution has a corner or even a plain monopoly on efficiency. We have had efficient distribution since long before the chains developed to any extent. Retailing, as well as other parts of our distributive system, have been in a constant state of flux for many years. Both the mail order house and the department store marked specific stages of progress when they came to the front. Before them, the specialty store was an improvement over the general store, and the latter was a decided improvement over the old trading post. It is therefore preposterous to assert that before the advent of chain stores the retailing system was dominated by inefficient merchants. While those merchants may be regarded as inefficient, in terms of present-day standards, such is not necessarily the case when they are viewed in the proper time perspective. There is probably as much difference in appearance and in merchandising efficiency between the chain store of today and its early predecessor as there is between the modern independent and his brother of yore.

From the facts presented in earlier chapters it appears that the truth and validity of many of the statements made by chain store advocates in favor of a let-alone policy may be seriously questioned. Further light on this point will be shed by the brief discussion in this chapter of the position taken by persons who would like to have the chain system completely outlawed. Even when the above statements in defense of the chains are taken at face value, the wisdom of a let-alone policy is yet to be established, for the benefits cited represent but the sunny side of the chain store situation. There is, however, also a darker aspect. Chain stores are alleged to possess certain undesirable features that are definitely detrimental to the public and disruptive of an otherwise wholesome distributive system, especially if certain of the abuses that have grown about the chain method of operation

are left unchecked. There is, for example, the possession of monopolistic power in some cases and a definite trend toward monopoly in the chain system as a whole. Then there are the bad effects of absentee ownership and control, a tendency to lower wage standards and limiting the employment opportunities of white-collar workers, and a strong tendency to stifle individual economic opportunity. Above all, there are certain abuses of which chains have been found guilty, such as clubbing manufacturers into giving them unwarranted discounts and allowances of various kinds. Similarly, it is claimed that chains have been escaping their just share of certain taxes and community obligations. It is this liability side of the chain's position that makes a let-alone or *laissez-faire* policy undesirable and impractical.

Legislate Chains Out of Existence.—At the other extreme is to be found a growing demand for the outlawry of chain stores. Advocates of this radical procedure place much of the blame for the depression, which began in 1929, at the door of chain stores. They assert that this country has had depressions before, but each time the people extricated themselves from the economic difficulties without any substantial assistance from the government. Not so during the last depression. Not only was this depression the deepest ever experienced but, despite our gigantic efforts and the enormous aid given by the Federal government, it has yet to be conquered. Millions of persons are still on relief, the ranks of the unemployed are still long and thick, poverty stalks in our midst, and hunger, misery, and destitution are characteristics of the times in a land of "milk and honey." The so-called "chain store evil" is blamed for much of this suffering because chain stores are alleged to have disrupted our normal economic organization.

Specifically, it is charged that the nonresident ownership and operation of the stores by chains have been a disruptive influence in the life of the community. The economic opportunities of independent merchants and other middlemen have been seriously curtailed. Not only that, but the very economic life of the typical American community is threatened through the nonsupport by the chains of local industry and other sources of merchandise supply, through their failure to employ local attorneys for the legal work, through their refusal to patronize local insurance

agents, and through the nonuse of the services of many other professional groups and mechanical trades.

A considerable part, and sometimes all, the work is done from some centralized point. Merchandise is purchased from distant sources; equipment, such as typewriters, scales, refrigerators, and the like, is bought from the headquarters of the producer instead of from the numerous local dealers of these commodities. Fire insurance for all stores is placed with a single organization; delivery trucks and company automobiles are bought from a single source, possibly direct from the factory; one firm of attorneys handles all or most of the company's business; and local people are denied the opportunity to share in the profits earned by the units of the chains that operate in their respective communities. Similarly, chains escape some of the obligations to the various civic and religious organizations of the communities in which their stores are located, although in recent years more of them have been encouraging their local managers or at least the district managers to participate more actively in civic affairs and to contribute more liberally to the churches, the community chest, and other worthy causes.

Chain store opponents argue that farmers are harmed rather than benefited by the chain, that they are made to depend too much upon a single outlet or a very limited number of outlets. In some cases, the chains are so powerful in their domination of the market that they can dictate the price the farmer may receive for his products. Even when two or three powerful chains operate in a given market, it still is possible through some understanding among the chain store buyers to dictate the price to the farmer. Such allegations have come to the authors' attention on numerous occasions. For example, without the assistance of the three most important chains in a certain Midwestern city, the local apple crop cannot be sold successfully. Sometime ago it was alleged that the buyers of all three chains offered about the same price and insisted upon the same conditions of pack and delivery, even though such conditions worked a hardship on the farmers. By the same token it is possible for chains to cooperate with the farmers in moving crops on advantageous terms to the growers. Not only may the chain stores dictate the price to the farmer, but they generally set the price which the independent is willing to pay in order that he may compete with

his rival. In some cases, chains have even gone into farming, thereby entering into direct competition with the farmer. Furthermore, to the extent that chains have destroyed or minimized economic opportunities to our citizens they have been responsible for a decrease in the demand for farm products.

Many other charges are made against the chains in arguing for their elimination. Practically all of them have been discussed in earlier chapters of this book. Suffice it at this juncture to catalog but a few of them. Chains tend toward monopoly. In fact, in some communities and in certain lines of business, they may have already attained a semi-monopoly. They pay low wages; do not share in the local tax burden; increase unemployment by lessening the need for traveling salesmen and employees in wholesale houses, hotels, and railroads; impoverish local communities by taking money out of town and sending it to the larger cities; resort to the use of loss leaders, a practice that is deceptive to the public and detrimental to the manufacturer whose product is used as bait; sharpen lines of class distinction by causing bitter feeling against big business and "wallstreeters." Above all, there is antagonism to the chain system because it has lessened the economic opportunities for ambitious men who would like to engage in businesses of their own, thereby turning us into a nation of clerks and employees.

That there is much bias in the above contentions goes without question. The reasoning on some of the points is utterly fallacious and in others will stand some scrutiny. Nevertheless, there is some truth in those allegations. Indeed, the detrimental effect of chains in certain quarters must be readily acknowledged. But to say that this justifies the outlawing of the chain institution is carrying the idea beyond reason. In addition to the liability side there is also an asset position which must be taken into consideration. Only the naïve and unsophisticated can argue that chains are thoroughly bad. The numerous and substantial benefits traceable to the chain method of doing business cannot be overlooked. There is no question but that chains have helped to reduce the waste in distribution, sharpened competition, weeded out the inefficient independents, improved the trading position of many communities, given the consumer fresher goods in wider assortments and at lower prices, encouraged the use of package goods, and introduced many improved methods and techniques

into retailing. For these various reasons, any attempt to outlaw the chains, even though it may be legally possible, should be frowned upon. It is even more preposterous to think of such action than it is to leave the chains to their own devices.

Regulate the Chains.—A somewhat milder attitude on the part of chain store opponents is expressed in a desire to regulate chains, largely with a view toward curtailing their growth and multiplication of units. Another aim in such regulation is to reduce some of the advantages which chains enjoy in order to make competition for the independent more tolerable. Essentially the same arguments are made in favor of regulation as are advanced in favor of their complete abolition.

That it would be economic folly to attempt to outlaw the chains has already been intimated. It would also set a bad precedent and serve as a boomerang to other types of retailing in the future. A similar position must be taken in regard to any effort to curtail the further development of chains or to handicap them through too much government regulation. All regulation is largely negative. Whatever rules are laid down to prevent abuses tend to inhibit business. Furthermore, unlike public utilities supplying gas, electricity, water, or telephone service, chain stores have not yet reached the monopoly stage. While they may possess tendencies toward monopoly, there is so far, with possibly a few exceptions, little evidence of monopoly control. Even in cities and in lines of business in which the chains do the lion's share of the business, the trade is shared by several competing chains. When these competing chains combine and begin to exercise control over prices charged to consumers, then government regulation may become inevitable. It is true that in certain cases, chains may be regarded as monopolies *de facto*, if not *de jure*, because a given business may be dominated by one or two large concerns in a given geographic area. Moreover, if the trend toward larger and larger chains continues, and if chains are allowed to integrate their retailing and wholesaling operations with manufacturing (a privilege denied the large meat packers on the ground that it tends toward monopoly over the food business), the time may come where a strong tendency toward monopoly may give way to actual monopoly. To prevent them from taking undue advantage of the public, they may then have to be effectively regulated and their operations subjected to the light

of full publicity as are the railroads and various public utilities. The threat of such an occurrence is not immediate. Consequently, there is even less justification for the government regulation of chain stores than there is for the regulation of the steel business, sugar refining, copper production, or petroleum refining.

Eliminate Abuses of Chains.—A saner approach to the chain store problem would seem to lie in an attempt to retain all of the advantages of chain store operation for the benefit of consumers and the public at large, without having to suffer from the abuses which have grown about that system of merchandising. As long as the superiority of the chains is due to inherent efficiency or to better management and operation, and as long as we profess to adhere to a competitive system of economy, there can be no quarrel with the chains. It then becomes a matter of the survival of the fittest. But when superiority is achieved through foul means and undeserved advantages, fairness in competition disappears, and the government must step into the picture to insure fair play.

That the chain stores have been guilty of a number of unfair practices is now a matter of common knowledge. What is needed is to make these ethically unfair practices definitely illegal. Such was the intent of the Robinson-Patman Act discussed in some detail in the preceding chapter. It aims to eliminate the unfair advantages which the chains have enjoyed largely because of their tremendous size and superior bargaining position, including excessive discounts in the form of price reductions, secret rebates, special allowances for advertising and other alleged purposes, and unearned brokerage fees. The fair-trade laws, already enacted by 42 states, although of less merit than the Robinson-Patman law, aim at the loss-leader selling policy so vigorously pursued by chains. It is believed that the direction will be along the line of more, rather than less, restrictive legislation, especially if attempts are made to circumvent the type of legislation referred to above. It would seem, further, that such legislation, particularly when it aims to eliminate abuses, is not only fully justified but may stave off more radical action against the chains. The majority of the people of the United States still respect the gains made in a sportsmanlike fashion but may be moved to drastic action if the rules of the game are disregarded and fair play is abandoned.

Equalize Chain Store Inequities.—It is often argued that chain stores do not pay their proper share of the local taxes. This is especially true of property taxes, because chains carry smaller inventories, because these inventories are priced at cost (which does not include any wholesaling margin or transportation cost as in the case of independent retailers), and because it is difficult if not impossible for the local tax assessor to examine the books of the chain which may be in a different city or state. To the extent that this is true, the inequity may be wiped out by some special tax which applies only to chains or which applies to them in a larger measure. Among the other alleged inequities is the unequal burden carried by chains and independents in the maintenance of certain civic institutions and activities. For this, too, a somewhat higher tax may be imposed upon chains. One may even go so far as to state that special chain store taxation is justified on the ground that the chains are more able to pay taxes than are the independents. Our income tax measures follow very definitely the principle of taxation according to ability to pay; hence, the rate progresses as the income increases. The validity of this latter position has been well established by the several decisions of the United States Supreme Court, as explained in detail in Chap. XVI.

There seems to be nothing essentially wrong with a special chain store tax as long as it is scientifically constructed either for the purpose of equalizing some of the tax differences existing between chains and independents or for equalizing some of the differences in the contributions to community and other essential public undertakings of the locality. While such a tax may be equally justified on account of the chains' superior ability to pay taxes, it is believed that a better approach to that problem may be had when all businesses with similar ability to pay are considered rather than singling out the chains for the purpose. Not only are the present state taxes aimed at chains crudely constructed from this standpoint, but they make no distinction between the different kinds of business. As shown in Chap. IX, sales per store vary considerably with the different kinds of business in which chains operate. For the year 1936, for example, the average sales per store for a group of grocery chains for which such data were available were approximately $70,000, while those for shoe chains were about $51,000, but for drug chains the aver-

age sales per store were in excess of $132,000, and for variety stores they exceeded $177,000. An even greater variation is shown for the net profits per store for the chains operating in different kinds of business. During the year 1936, for instance, the average net profits per store operated by a group of grocery chains, for which data were available, were $838; for shoe chains they were $2,416 per store; for drug chains they amounted to $6,582 per store; and variety chains cleared a net profit per store of $14,014. To disregard such differences in sales and profits per store in any chain store tax is to place an inequitable burden on some chains and to give favored treatment to others. A much sounder plan would be to vary the amount of the tax with the kind of business in which the chain store operates. That such a tax would stand the test of constitutionality is quite clear, for the same reason that certain kinds of retailings, such as gasoline stations, have been exempted from some of the chain store taxes and such action has received the approval of the Supreme Court.

Most of the chain store taxes must also be criticized because they tend to ignore the superior advantages of the long chains over the shorter ones. From this standpoint, the Louisiana law which has already been declared constitutional is superior to the other types of legislation, for it takes cognizance of the fact that the large chains have greater ability to pay taxes, and, hence, the tax rates, while applying only to the number of stores within the state, are based upon the total number of units in the chain anywhere in the United States. Even the Committee on Taxation of the Twentieth Century Fund, Inc., which is opposed to any kind of chain store taxation, favors the Louisiana type of law over the others.[1]

Chain store taxes are often used for other purposes than equalizing certain inequities. At times they are resorted to in order to curtail chain growth or even to eliminate these institutions. This would seem to be an abuse of the system of taxation, at least from an economic point of view. The new Georgia Chain Store Tax Act, in addition to taxing regular chains up to $200 per store for all stores over 40 and smaller amounts for the chains with fewer units, provides a license fee of $2,000 upon one store which is operated "collateral to, and in conjunction with the operation

[1] "Facing the Tax Problem," pp. 186, 504, Twentieth Century Fund, Inc., New York, 1937.

of a mail-order or catalogue sales type of business." For a chain of two such stores, the license fee is $4,000 per year per store, and for such chains with more than four stores each, a license fee of $10,000 per store is provided. Obviously, this type of license tax is aimed at the elimination of a combination of mail order business with over-the-counter selling. It is indicative of what may happen when the legislatures learn how far they can go with special-interest tax measures. It is legislation of the boomerang type and may in time injure the very people who are instigating such measures at present.

One must also look askance at any attempt by taxation to equalize whatever economic advantages the chain stores possess. To do so is tantamount to freezing our economic mechanism and to deprive the consuming public of the benefits which improved methods and superior management make possible. This is contrary to the spirit underlying a competitive regime and is definitely inimical to progress and advancement in our standard of living. If an attempt were made to equalize competitive advantages, no sooner would the chain store situation be in hand than the same forces would clamor for similar legislation against supermarkets, which are even more efficient than the regular chains from the standpoint of cost of operation and lower prices to consumers.

Summary.—The period of vituperative denunciations of the chains on one hand and bitter rejoinders to the independents' charges on the other is definitely on the wane. Sheer vociferousness must give way to reasoned argument. An armistice must be declared to the battle of unfounded allegations. Neither the chains nor their opponents have much to gain by a misrepresentation of facts or misinterpretation of actualities. The time has come for a sane consideration of the problem. Allegations must be based on facts—facts scientifically obtained and objectively presented.

If it is felt that chain stores evade certain taxes to which independents are subject, the nature and extent of the evasion should be factually and objectively determined. It may well be that certain other taxes, aside from the so-called "discriminatory" chain store taxes, may be imposed on chains from which independents may be totally or partially exempt. These added tax burdens may more than offset the savings incident to certain

alleged tax evasions or exemptions. All this can be determined only through carefully designed and properly executed sample surveys and studies of the tax situation relating to chains and their independent competitors. Similarly, if it is felt that chains escape certain responsibilities to the community from which they derive their business, the extent of such difference should be ascertained instead of engaging in a battle of words which is bound to arouse public sentiment one way or another, probably against the chains.

A sane and constructive approach to the problem is sorely needed. There is no question but that chains have carved for themselves a definite niche in our economic system. The public must not be deprived of the many benefits which inure from their operations. But the same public must be equally protected from certain evils and abuses which the chains have brought with them in order that the benefits may be enjoyed over a long period of time. Furthermore, it must be borne in mind that the social effects of a business organization are fully as significant as are the purely economic consequences. On this score, an enlightened public opinion is the need of the hour. It is the only safeguard against further punitive legislation and rash action and affords similar protection for the consumer against unfair practices and abuse.

APPENDIX A

SURVEY OF RETAIL PRICES OF CHAINS AND INDEPENDENTS

GROCERY STORE SCHEDULE

Name of Concern________________ Address________________
City________________ County________________
Chain No. of Branches_____ Independent
Canvasser________________ Date________________
(Signature)

Brand or grade	Unit	Unit price	Combination price
Cliquot Club Ginger Ale (Pale)	Pint btl.		
Sunsweet Prune Juice	Quart btl.		
Grape Juice	Pint		
Blue Ribbon Malt Syrup	3-lb. can		
Maxwell House Coffee	1-lb. can		
Sanka Coffee	1-lb. can		
Ovaltine	Small can (6 oz.)		
Chase & Sanborn Coffee	1-lb. pkg.		
Instant Postum	4-oz. can		
Lipton's Yellow Label Tea	¼-lb. box		
Banquet Tea	¼-lb. box		
Hershey's Cocoa	½-lb. can		
Baker's Cocoa	½-lb. can		
Walter Baker's Premium Chocolate	½-lb. bar		
Water Ground Meal	5-lb. bag		
Aunt Jemima Pancake Flour	1¼-lb. box		
Swansdown Cake Flour	2¾-lb. box		
Mother's Oats	20-oz. box		
Quick Quaker Oats	20-oz. box		
Quaker Puffed Wheat	3½-oz. box		

Brand or grade	Unit	Unit price	Combination price
Quaker Hominy Grits	24-oz. box		
Cream of Wheat	28-oz. box		
Wheaties	Pkg.		
Post Toasties	8-oz. box		
Grape Nuts	12-oz. box		
Grape Nut Flakes	7-oz. pkg.		
Heinz Rice Flakes	Pkg.		
Kellogg's All Bran	11-oz. pkg.		
Shredded Wheat	12-biscuit box		
Skinner's Macaroni	7-oz. box		
Skinner's Pure Egg Noodles	4-oz. box		
Mueller's Spaghetti	8-oz. pkg.		
Kellogg's Corn Flakes	8-oz. pkg.		
Skinner's Raisin Bran	Pkg.		
Wesson Oil	1-pt. can		
Lea & Perrins Sauce	5-oz. bottle		
Pompeian Olive Oil	8-oz. btl.		
Ritter's Catsup	14-oz. btl.		
Heinz Catsup	14-oz. btl.		
Campbell's Pork & Beans	16-oz. can		
Standard Pork & Beans	16-oz. can		
Franco-American Spaghetti	15¾-oz. can		
Ritter's Spaghetti	15½-oz. can		
Campbell's Tomato Soup	10½-oz. can		
Pet Milk	6-oz. can		
Golden Key Milk (tall)	Can		
Borden's Eagle Condensed Milk	15-oz. can		
Libby's Corned Beef	No. 1 can		
Armour's Corned Beef	No. 1 can		
Red Salmon (Argo)	No. 1 can		
Pink Salmon "Standard"	No. 1 can		
Gorton's Fish Cakes	Can		
Gorton's Flaked Fish	Can		
Calo Dog Food	Can		
Victory Dog Food	Can		
Armour's Tripe	No. 2 can		

Brand or grade	Unit	Unit price	Combination price
Arm & Hammer Soda	8-oz. box		
Rumford Baking Powder	12-oz. can		
Calumet Baking Powder	1-lb. can		
Crisco Vegetable Shortening	1-lb. can		
Snowdrift Vegetable Shortening	1-lb. can		
Brer Rabbit Molasses (gold label)	1⅛-lb. can		
Karo Syrup (red label)	1½-lb. can		
Log Cabin Syrup	Table can		
Jello	Pkg.		
Argo Corn Starch	1-lb. pkg.		
Staley's Gloss Starch	8-oz. pkg.		
Argo Laundry Starch	8-oz. pkg.		
Minute Tapioca	8-oz. box		
Sun Maid Raisins, seeded	15-oz. box		
Certo	8-oz. bottle		
Morton's Salt	26-oz. pkg.		
Hershey's Almond Bar	5¢ bar		
Wrigley's Gum	5¢ pkg.		
Domino Granulated Cane Sugar	2-lb. carton		
Domino Confectioner's Sugar	1-lb. carton		
Fancy Blue Rose Rice	5-lb. bulk		
Choice Navy Beans	Per lb. bulk		
Dried Lima Beans	Per lb. bulk		
Dried Prunes 70/80	Per lb. bulk		
Sunsweet Prunes	1-lb. pkg.		
Blackeyed Peas	Per lb. bulk		
Granulated Sugar	Per lb. bulk		
Wisconsin Full Cream Cheese, Mild	Per lb.		
Libby's Apricots, Regular	No. 1 can		
Libby's Pears	No. 2½ can		
Libby's Peaches Sliced	No. 1 can		
Libby's Peaches Halves	No. 2½ can		
Libby's Pineapple Sliced	No. 2 can		
Del Monte Sliced Pineapple	No. 2 can		
Broken Sliced Pineapple "Standard"	No. 2½ can		
Del Monte Peaches	No. 2½ can		

Brand or grade	Unit	Unit price	Combination price
Libby's Spinach	No. 2 can		
Del Monte Spinach	No. 2 can		
Spinach "Standard"	No. 2 can		
Picnic Asparagus	Picnic tin		
Peas (Early June) "Standard"	No. 2 can		
Libby's Sauerkraut	No. 2½ can		
Tomatoes "Standard"	No. 2 can		
Corn "Standard"	No. 2 can		
Pumpkin "Standard"	No. 2½ can		
Lifebuoy Soap	Bar		
Palmolive Soap	Bar		
Ivory Soap	Medium bar		
P & G Naphtha Soap	Large bar		
Lux Toilet Soap	Bar		
Lux Flakes	Small box		
Chipso	Small pkg.		
Chipso	Large pkg.		
O. K. Soap	Small bar		
Rinso	Small pkg.		
Supersuds	Pkg.		
Bon Ami	Box		
Old Dutch Cleanser	Box		
Saniflush	12-oz. tin		
Waldorf Toilet Tissue	Roll		
Scot Tissue Paper	Roll		
Drano	12-oz. tin		
Camel Cigarettes	Carton (200)		
Old Gold Cigarettes	Pkg. 20's		
Chesterfield Cigarettes	Pkg. 20's		
Prince Albert Tobacco	1 can		
Blue Ribbon Mayonnaise	1-pt. jar		
Bread (Ward's)	1-lb. loaf		
Rolls (Ward's)	1 doz.		
Kraft's Miracle Whip Salad Dressing	1-pt. jar		
N.B.C. Uneeda Biscuit	5¢ box		
N.B.C. Lemon Snaps	5¢ box		

Brand or grade	Unit	Unit price	Combination price
N.B.C. Zuzus	5¢ box		
L. W. Chocolate Snaps	5¢ box		
L. W. Vanilla Wafers	5¢ box		
Clover Farm Butter	1 lb.		
Brookfield Butter	1 lb.		
Libby's Apple Butter	28-oz. jar		
"Standard" Peanut Butter (Picnic)	2-lb. jar		
Beech Nut Peanut Butter	1-lb. jar		
Rosemary Grape Jam	16-oz. jar		
Whitehouse Vinegar	Quart btl.		
Whitehouse Vinegar	½-gal. btl.		
Whitehouse Vinegar	1-gal. btl.		
Best Foods Bread & Butter Pickles	Jar		
French's Mustard	6-oz. jar		
Climalene	Small pkg.		
Bisquick	2½-lb. pkg.		
Black Flag Insecticide	Pint		

APPENDIX B

CHAIN AND INDEPENDENT GROCERY STORE PRICES: PRICE QUOTATIONS, AGGREGATES OF QUOTED PRICES, AND PRICE RELATIVES,[a] BY INDIVIDUAL ITEMS

Commodities	Size	Independent stores (Class 1)		Chain stores: 2–3 stores (Class 2)			7–10 stores (Class 4)			11–15 stores (Class 5)			16 stores and over (Class 6)		
		No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
All commodities[b]	....	21,074	$3,139.54	5,387	$827.29	96.82	3,648	$562 98	96 69	1,164	$174 61	96.07	14,852	$2,204 08	95.44
Bakery products:															
Bread (Ward's)	1-lb. loaf	105	$10.50	15	$1.48	98 70	9	$0 90	100 00	7	$0.68	97 10	34	$3.40	100 00
Rolls (Ward's)	1 doz.	99	9.90	15	1.49	93 30	9	0.90	100 00	7	0 69	98 60	30	3.00	100 00
N.B C. Uneeda Biscuit	5¢ box	254	12.66	52	2.55	98.39	36	1.78	99.40	12	0 60	100.40	162	8.09	100 20
N.B.C. Lemon Snaps	5¢ box	252	12.56	52	2 55	98 39	36	1 78	99 40	12	0.60	100.40	162	8.09	100 20
N.B.C. Zuzus	5¢ box	244	12.16	52	2 55	98 39	36	1.78	99.40	12	0.60	100 40	162	8.09	100.20
L. W. Chocolate Snaps	5¢ box	197	9.82	49	2 40	98 19	30	1.49	99.40	5	0.25	100.40	89	4.44	100 20
L. W. Vanilla Wafers	5¢ box	197	9.82	49	2.40	98 19	31	1.53	99.16	5	0.25	100.40	87	4.34	100.20
Beverages:															
Cliquot Club Ginger Ale (Pale)	Pt. btl.	76	11.29	40	5.70	95.83	30	4.44	99.60	4	0.66	111.04	60	8.66	97.11

Sunsweet Prune Juice..........	Qt. btl.	102	25.54	45	11.09	98.40	32	7.88	98.36	10	2.44	97.44	143	34.04	95.05
Grape Juice (Welch's).......	Pint	150	29.16	45	8 77	100.26	33	6.45	100.57	8	1.46	93.88	112	30.45	93.93
Blue Ribbon Malt Syrup	3-lb. can	90	54.43	39	24.24	102.76	34	20.30	98 73	10	6.00	99 21	131	81.94	103.42
Maxwell House Coffee	1-lb. can	259	78.76	52	15 07	95 30	36	10 40	95 00	12	3.55	97 27	161	47.75	97.53
Sanka Coffee	1-lb. can	152	75 55	48	22.72	95 23	35	17 06	98 07	10	4 72	94 97	132	62 39	95.11
Ovaltine	6-oz. can	182	64.51	50	16.86	95.12	33	11.23	95.99	12	4.00	94 02	159	52.47	93.09
Chase and Sanborn Coffee	1-lb. pkg.	204	57.78	50	13 24	93.50	36	9.70	95 13	8	2.18	96 22	125	33.36	94.24
Instant Postum...	4-oz. can	215	56.26	50	12 88	98.43	36	9 06	96 18	12	2.98	94.88	161	40 79	96.83
Lipton's Yellow Label Tea.	¼-lb. box	212	51.93	51	11.73	93 88	33	7.97	98 57	12	2.82	95 92	140	34.43	100 37
Banquet Tea......	¼-lb. box	117	28 58	34	7 65	92.10	19	4 50	96 93	10	2.20	90 05	48	11.36	96.89
Hershey's Cocoa ..	½-lb. can	240	24.71	52	5 35	99 81	36	3 73	100 49	12	1.22	98 74	159	16.12	98.45
Baker's Cocoa ...	½-lb. can	158	21.09	49	6.16	94.08	34	4.24	93 41	8	0.99	92.73	140	16.67	89 14
Walter Baker's Premium Chocolate	½-lb. bar	148	35.94	48	11.54	99.01	33	7.93	98 97	10	2.33	95.96	131	32.13	101.03
Breakfast foods:															
Aunt Jemina Pancake Flour......	1¼-lb. box	191	26.18	48	6.24	94.75	36	4 76	96 43	11	1.37	90 52	141	17.75	91.83
Mother's Oats....	20-oz. box	163	16 62	35	3 48	97 55	32	3.16	96 96	9	0.90	98 14	66	6.57	97 64
Quick Quaker Oats	20-oz. box	206	20.97	43	4 27	97.54	30	2.97	97 25	11	1.10	98 23	151	15.04	97.84
Quaker Puffed Wheat	3½-oz. box	219	24.62	51	5 23	91.19	35	3.53	89 76	12	1.31	97 15	154	15.56	89.86
Cream of Wheat. .	28-oz. box	163	41 25	47	11 67	98.10	34	8 44	98 06	10	2.48	97 98	70	17.13	96 68
Wheaties	Pkg.	188	24 42	48	6 07	97 31	36	4.48	95 77	12	1.52	97 54	136	17.42	98 61
Post Toasties ..	8-oz. box	228	21 03	51	4 33	92 08	33	2 89	94 90	12	1.01	91 32	153	13.22	93.71
Grape Nuts	12-oz. box	224	42.08	50	9.25	98 46	36	6 52	96 38	12	2 04	90.47	159	28 80	96 38
Grape Nut Flakes.	7-oz. pkg.	224	24 92	50	5 58	100 18	36	3.71	92.45	12	1.20	89 85	159	16.57	93.62
Heinz Rice Flakes.	Pkg.	176	22 31	47	5 70	95 58	35	4 29	96 53	11	1.37	97 87	147	18.53	99.46
Kellogg's All Bran.	11-oz. pkg.	247	32 70	51	6 53	96.68	36	4 54	95.17	12	1.51	95 02	162	20 28	94.56
Shredded Wheat .	12-Bs. box	231	34 06	51	6 73	89 55	36	4.84	91.18	12	1 61	90.77	162	21.02	87.99

Commodities	Size	Independent stores (Class 1)		Chain stores: 2–3 stores (Class 2)			7–10 stores (Class 4)			11–15 stores (Class 5)			16 stores and over (Class 6)		
		No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Kellogg's Corn Flakes	8-oz. pkg.	261	23.94	50	4.30	93.68	36	3.13	94.77	12	0.99	89.86	161	14.05	95.20
Skinner's Raisin Bran	Pkg.	148	19.82	44	5.66	96.04	31	3.88	93.35	10	1.25	92.98	133	16.78	94.25
Canned fruits and vegetables:															
Libby's Apricots, Regular	No. 1 can	35	5.94	28	4.61	96.99	10	1.61	94.87	3	0.46	90.34	32	4.93	90.81
Libby's Pears	No. 2½ can	36	8.92	34	8.17	96.97	14	3.33	96 00	2	0.46	92.82	63	15.75	100.89
Libby's Peaches, Sliced	No. 1 can	41	5.53	34	4.59	100.15	11	1.47	99.11	1	0.12	89.02	63	8.37	98.52
Libby's Peaches, Halves	No. 2½ can	58	12.77	36	7.48	94.37	11	2.39	98.68	1	0.19	86.29	57	11.19	89.10
Libby's Pineapple, Sliced	No. 2 can	67	12.73	37	6.70	95.32	12	2.19	96.05	3	0.51	89.47	63	10.95	91.47
Del Monte Pineapple, Sliced	No. 2 can	86	16.24	37	6 79	97 19	31	5.51	94.12	6	1.00	88.29	115	19.91	91 68
Del Monte Peaches	No. 2½ can	69	14.49	35	8 32	113 19	31	6 57	100 90	8	1.60	95.24	106	21 07	94 67
Libby's Spinach	No 2 can	59	7 95	34	4 32	94 21	13	1 74	99 33	8	0.99	91 91	64	7.95	92 13
Del Monte Spinach	No. 2 can	56	7.62	26	3 38	95 37	29	3 93	99 41	10	1.40	102 87	98	12.51	93 83
Picnic Asparagus	Picnic tin	195	29 00	46	6 68	97.65	27	4.09	101.75	9	1.24	92.67	142	18.85	89 24
Libby's Sauerkraut	No. 2½ can	84	11.31	26	3 01	85.88	12	1.40	86.40	7	0.89	94.43	121	13 16	80 76

Other canned goods:															
Campbell's Pork and Beans ...	16-oz. can	153	11.85	36	2.63	94.32	22	1.62	94.71	5	0.39	100.65	110	7.74	90 84
Standard Pork and Beans	16-oz. can	200	11.61	48	2.54	91.04	26	1.44	95 52	12	0.60	86 06	127	6.60	89.33
Franco-American Spaghetti	15¾-oz. can	200	19 72	50	4 89	99.18	36	3.50	98.58	12	1.20	101 42	118	11.76	101.01
Ritter's Spaghetti..	15¾-oz. can	42	3 63	23	1.88	94.67	13	1.09	96.75	3	0.22	83 08	20	1.53	88 88
Campbell's Tomato Soup	10½-oz. can	251	23 60	52	4.54	92 77	34	3.00	94 04	11	1.06	102.87	154	13.03	90 00
Pet Milk	6-oz. can	201	7.48	46	1.66	96 77	29	0.98	91.13	11	0.38	94.09	119	4.25	95 97
Golden Key Milk—Tall	Can	147	9.39	33	2.01	95.45	27	1.61	93.42	5	0.31	98.28	34	2.07	95.45
Borden's Eagle Condensed Milk	15-oz. can	216	47.22	52	10.82	95.15	33	6.83	94.69	11	2.31	96.07	156	31.76	93.14
Libby's Corned Beef	No. 1 can	181	32.38	46	8 00	97.26	33	5.67	96.14	12	2.09	97.26	142	23.28	91.72
Armour's Corned Beef	No. 1 can	82	13 10	31	4 82	97 43	31	4.88	98.56	2	0 30	93 98	103	15.56	94 67
Red Salmon (Argo)	No. 1 can	182	40 96	52	11 04	94.36	36	7.42	91 60	12	2 36	87 42	60	12.55	92 98
Calo Dog Food....	Can	211	18 34	48	4 05	97 00	34	2 94	99 54	12	1 04	99 42	155	13 06	97 01
Victory Dog Food	Can	23	1.53	6	0.40	96 98	7	0.36	77 53	6	0.30	75 41	90	4.53	75.87
B. Rabbit Molasses (Gold Label) ..	1⅛-lb. can	148	28.44	43	8.13	98 39	33	6.15	96.98	7	1.24	92.14	123	23.35	98.75
Karo Syrup (Red Label)	1½-lb. can	246	40 90	52	8.35	96 63	36	5.83	97 41	12	1.89	94 77	160	24 10	90 61
Log Cabin Syrup ..	Table can	154	38.24	48	11.65	97.74	35	8.61	99.07	12	2.86	95.97	135	32.53	97.06
Condiments and salad dressings:															
Wesson Oil........	1-pt. can	240	59.72	52	12.37	95 62	36	8.65—	96 50	12	2.97	99.48	161	39.11	97.63
Lea and Perrin's Sauce	5-oz. btl.	178	59 65	52	16 71	95 88	36	11 24	93 17	12	3 76	93 49	142	45.98	96 63
Pompeian Olive Oil	8-oz. btl.	22	6 49	12	3 46	97 73	8	2 31	97 90	2	0 50	84 75	6	1 68	94 92
Ritter's Catsup ..	14-oz. btl.	92	13 05	23	3 02	92 45	13	1 69	91 68	2	0 29	102 26	20	2 55	89 77
Heinz Catsup....	14-oz. btl.	184	41 74	51	11 24	101 66	34	7.19	97 56	8	1 75	100 92	128	28 14	101.38

Commodities	Size	Independent stores (Class 1)		Chain stores: 2–3 stores (Class 2)			7–10 stores (Class 4)			11–15 stores (Class 5)			16 stores and over (Class 6)		
		No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Morton's Salt	26-oz. pkg.	242	23.52	52	5.06	100.10	35	3.51	103.09	11	1.00	93.52	143	14.14	101.65
Blue Ribbon Mayonnaise.........	1-pt. jar	161	47.39	45	13.11	98 98	31	9.06	99.25	8	2.32	98.54	119	34.30	97.93
Kraft's Miracle Whip Salad Dressing........	1-pt. jar	186	47.96	49	12 80	101 32	34	8 87	101 20	11	2.91	102 64	55	14.35	101.20
Whitehouse Vinegar	Qt. btl.	118	21.43	35	6 23	98 02	33	5 94	99.12	12	2 01	92 24	87	16.18	102.42
French's Mustard..	Jar	230	23.61	52	5 21	97 57	32	3 33	101 36	9	0.94	101 66	144	14.60	98.73
Farinaceous foods:															
Swansdown Cake Flour..........	2¾-lb. box	187	62 58	48	15 64	97 34	36	11 42	94 77	11	3 54	96 15	151	51 24	101 37
Skinner's Macaroni	7-oz. box	56	4.63	41	3.15	92 99	29	2 27	94 56	8	0 66	99 76	33	2.84	103 87
Skinner's Pure Egg Noodles	4-oz. box	40	3.53	31	2 54	92 64	27	2 27	93 20	6	0.51	95 36	17	1.55	103.51
Mueller's Spaghetti	8-oz. pkg.	96	9.91	29	2 99	99 90	11	1 06	93 41	6	0.60	96 90	20	1.94	94 19
Bisquick....	2-lb. pkg.	143	50.12	47	16 40	99.54	31	10 53	96 92	12	4.08	97.00	135	48.27	102 03
Other food products:															
Sunmaid Raisins, Seeded.	15-oz. box	218	21.82	54	5 40	99 80	22	2 16	98 10	8	0.78	97.40	148	14 80	99 90
Sunsweet Prunes ..	1-lb. pkg.	162	19 79	44	4.99	92 80	28	3 49	101 88	8	0.97	99.26	117	12.52	87 56
Quaker Hominy Grits...	24-oz. box	157	15.95	48	4 85	99.41	33	3 30	98.43	9	0.90	98.43	136	13 58	98 33

Arm and Hammer Soda	8-oz. box	254	12.67	49	2.43	99.60	33	1.65	100.20	12	0.60	100.20	129	6.59	102.40
Rumford Baking Powder	12-oz. can	195	48.70	41	9.74	95.15	29	6.98	96.40	10	2.23	89.31	122	29.86	98.04
Calumet Baking Powder	1-lb. can	176	45.19	50	12.29	95.72	35	8.78	97.70	12	3.00	97.35	150	37.19	96.53
Crisco Vegetable Shortening	1-lb. can	185	43.49	50	11.36	96.64	36	8 12	95 96	12	2.60	92.17	152	35.16	98.38
Snowdrift Veg. Shortening	1-lb. can	150	32 49	51	10.57	95.71	35	7.48	98 66	12	2.55	98 11	151	31.06	94.97
Jello	Pkg.	247	18 45	52	3.55	91 30	36	2.33	86 75	12	0.80	88 88	153	10.42	91.16
Argo Corn Starch	1-lb. pkg.	205	20.87	47	4 80	100 20	36	3 65	99 61	11	1.10	98 23	125	12.41	97.54
Minute Tapioca	8-oz. box	214	30 07	50	7.14	101 64	36	4 99	98 65	11	1.49	96 44	149	21.89	104.56
Certo	8-oz. btl.	187	59.12	50	14 87	94.05	35	10.37	93.71	12	3.62	95 41	150	44.39	93.58
Hershey's Almond Bar	5¢ bar	166	8.25	38	1 85	97.78	24	1.06	89.13	11	0.55	100 60	133	4.89	73.84
Wrigley's Gum	5¢ pkg.	231	11.41	49	2.27	93.93	34	1.57	93.32	12	0.58	98 38	161	5.92	74.49
Domino Granu. Cane Sugar	2-lb. ctn.	111	15.22	38	5.04	96.72	26	3.57	100.00	11	1.53	101.46	69	8.74	92.41
Domino Confectioner's Sugar	1-lb. ctn.	217	20 88	43	3.71	89.60	23	2.14	96.47	12	1.07	92.72	92	8.17	92.30
Fancy Blue Rose Rice	5-lb. bulk	171	47.33	41	10 38	91.47	24	6.11	91.98	10	2.50	90.32	153	38.46	90 79
Granulated Sugar	Per lb. bulk	246	13.99	48	2 59	94.73	33	1.77	94 38	12	0 64	94 20	159	8.47	93 67
Brookfield Butter	1 lb.	148	48.87	31	10 06	98 27	12	4.02	101.45	6	2.11	106 51	28	8.81	95 28
Libby's Apple Butter	28-oz. jar	46	8.54	18	3.38	101.13	8	1.38	92.89	2	0.35	92 89	35	6.10	93.86
Rosemary Grape Jam	16-oz. jar	40	8.40	15	2.89	91.76	28	5.87	99.81	5	1.11	105.71	97	19.26	94.57
Best Foods Bread & Butter Pickles	Jar	177	31.36	50	8.70	98.14	29	5.19	101.02	12	2.17	102.03	133	22.63	96.05
Soaps and cleansers:															
Staley's Gloss Starch	8-oz. pkg.	183	8.61	43	1.83	89.29	17	0.74	91.60	12	0.46	81.09	139	6.57	99.37

Commodities	Size	Independent stores (Class 1)		Chain stores: 2–3 stores (Class 2)			7–10 stores (Class 4)			11–15 stores (Class 5)			16 stores and over (Class 6)		
		No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Argo Laundry Starch	8-oz. pkg.	253	12.43	48	2 28	96 35	33	1 58	99.39	12	0.54	91.28	153	7.50	99 39
Lifebuoy Soap. ...	Bar	252	18 94	51	3 80	97 26	36	2 63	95 43	12	0 86	93 60	162	12.11	98 17
Palmolive Soap ...	Bar	236	12 79	52	2 60	100 40	36	1.75	97 39	12	0 60	100 20	162	8.08	100.00
Ivory Soap . ..	Medium bar	249	16.11	50	3 04	94 13	34	2 15	97 68	12	0.75	96 91	160	9.61	92.73
P. and G. Naphtha Soap	Large bar	250	12 38	51	2 51	99 19	36	1 77	99 39	12	0 60	101 01	157	7.58	97 58
Lux Toilet Soap...	Bar	251	19 29	52	3 78	94 54	36	2 62	94.41	12	0 90	97 27	161	11 90	96 10
Lux Flakes	Small bar	246	25 15	52	5 20	99 90	33	3 30	100 00	12	1.20	100 00	158	15 79	99.90
Chipso	Small pkg.	254	23 73	52	4 74	97 75	34	3 09	97 42	11	1.04	101 29	159	13.44	90 66
Chipso	Large pkg.	161	37 17	47	10 41	95 93	36	8 06	97 97	9	1 95	93 85	150	30.87	89 13
O. K. Soap	Small box	125	3 13	28	0 68	97 20	19	0 47	98 79	10	0 26	102 82	117	2 94	101 21
Rinso	Small pkg.	256	24 50	52	4 73	95 09	36	3.43	99 69	12	1 11	96 66	161	14.53	94 25
Supersuds.........	Pkg.	86	17 15	32	6 12	95 94	20	3 91	98 04	4	0 71	89 02	67	12.92	96 69
Bon Ami	Box	246	32 32	52	6 33	92 54	36	4 51	95 20	10	1.25	95 13	159	19.25	92 16
Old Dutch Cleanser	Box	251	22 58	52	4 29	91 77	36	3 10	95 88	12	1 00	92 67	159	12.87	90 10
Saniflush..........	12-oz. tin	148	35 37	41	9 12	93 05	25	5 74	96 07	3	0 71	99 04	96	21.66	94 39
Drano	12-oz. tin	200	47 88	48	10 88	94 70	35	8 07	96 36	8	1 87	97 70	132	28.91	91.52
Climalene.........	Small pkg.	147	14.78	46	4 56	98 51	35	3 48	98 80	8	0 80	99 40	118	11.14	93 84
Other nonfood products:															
Camel Cigarettes..	Pkg. 20's	227	28 20	51	6 12	91.98	34	4 11	92 16	12	1.48	93 28	159	19.61	92.72

Commodities	Size	Independent stores (Class 1)		Chain stores											
				2–3 stores (Class 2)			7–10 stores (Class 4)			11–15 stores (Class 5)			16 stores and over (Class 6)		
		No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Old Gold Cigarettes	Pkg. 20's	233	30 03	50	6.30	97 60	36	4 51	97 60	12	1.50	95.31	162	20 49	95.19
Chesterfield Cigarettes . . .	Pkg. 20's	242	31.13	51	6.43	96 70	36	4 51	97 18	12	1.50	98.95	162	20.48	99.36
Prince Albert Tobacco	1 can	229	29.14	50	6.10	98.06	36	4 34	97.43	12	1.47	97.20	159	18.12	98.29
Waldorf Toilet Tissue...........	Roll	139	7 01	46	2 27	95 76	35	1 73	94 58	12	0 60	95 91	140	6.95	89.55
Scot Tissue Paper	Roll	144	12 58	47	4 01	97.83	35	2 99	97.21	7	0.58	96 97	135	11.23	98.14
Black Flag Insecticide	Pint	23	10.23	25	11.56	103 96	7	2 81	90 24	3	1.53	114 66	50	18.89	84.94

[a] The price relative presents a per cent of the average price of independent stores. In each instance the independent-store price equals 100 per cent.
[b] All figures expressed to nearest cents and not adjusted to total.

APPENDIX C

SURVEY OF RETAIL PRICES OF CHAINS AND INDEPENDENTS

DRUGSTORE SCHEDULE

Name of Store__________ Address__________
City__________ County__________
Chain No. of Branches_____ Independent
Canvasser__________ Date__________

Brand	Unit	Unit price	Combination price
Drug Items			
Scott's Emulsion	6¼-oz. btl.		
Borden's Malted Milk (powder)	1-lb. can		
Doan's Pills	$0.75 size		
Aromatic Cascara—Sharpe and Dohme	4-oz. btl.		
Pepsodent Antiseptic	16-oz. btl.		
Phillips' Milk Magnesia	12-oz. btl.		
Listerine	3-oz. btl.		
Bayer's Aspirin Tablets	24 to btl.		
Bayer's Aspirin Tablets	100 to btl.		
Feenamint	$0.25 box		
Ex-lax	$0.25 box		
Kelp-A-Malt Tablets	$1.25 size		
Syrup Pepsin	$0.60 size		
Edwards Olive Tablets	$0.60 size		
Nature's Remedy Tablets	$0.50 size		
Russian Mineral Oil	32-oz. size		
Hinkle's Pills (U.S.P.)	100 to btl.		
Fletcher's Castoria	$0.40 size		
Bromo Seltzer	$0.60 size		
Anacin Tablets	50 to btl.		

Brand	Unit	Unit price	Combination price
Drug Items (*Continued*)			
Syrup Figs (California)	$0.60 btl.		
Kruschen Salts	$0.85 size		
Zonite	$0.60 size		
Inner Clean	$0.50 size		
Adlerika	16-oz. btl.		
Pluto Water	Large btl.		
Mexican Heat Powder	$0.30 can		
Ammens Heat Powder	$0.30 can		
Ovaltine	$0.85 can		
Sloan's Liniment	$0.35 size		
Absorbine Jr.	4-oz. btl.		
Lavoris	4-oz. btl.		
Scholl's Zino Pads (corn)	$0.35 size		
Petrolagar	$1.25 size		
Cuticura Ointment	$0.30 size		
Cuticura Soap	$0.30 size		
Carter's Little Liver Pills	40 to btl.		
Bellans	30 to btl.		
Mentholatum	Small jar		
Resinol Ointment	1½-oz. jar		
Unguentine	1-oz. tube		
Vick's Salve	$0.35 jar		
Cystex Compound	48 to box		
Father John's Medicine	4½-oz. btl.		
Swamp Root	$1.15 btl.		
Grove's Bromo Quinine Tablets	30 to box		
Newbro Herpicide	8-oz. btl.		
Wine Cardui	$1.00 size		
Black Draught	$0.25 size		
Liquid Arvon	$1.00 size		
Myeladol	$2.00 size		
Six-Sixty-Six Liquid	$0.25 size		

Brand	Unit	Unit price	Combination price
Drug Items (*Continued*)			
Grove's Chill Tonic	$0.50 size		
Wampole's Cod Liver Oil	$1.00 size		
Super D.	8-oz. btl.		
Sal Hepatica	$0.60 size		
Lydia Pinkham's Vegetable Compound	$1.50 size		
Pierce's Favorite Prescription	$1.25 size		
S.S.S.	$1.25 size		
Musterole	$0.35 jar		
Capudine	$0.60 btl.		
Pertussin	4-oz. btl.		
Pinex	$0.65 size		
Dextri-Maltose No. 1	$0.85 can		
Horlick's Malted Milk	$1.00 size		
Vince	$0.75 size		
Corega	$0.35 size		
B.C. Headache Powders	$0.25 size		
Squibb's Mineral Oil	16-oz. btl.		
Squibb's Castor Oil	3-oz. btl.		
Squibb's Cod Liver Oil	12-oz. btl.		
Vinol	11-oz. btl.		
Blue Jay Corn Plasters (6)	Box		
Sargeant's Pepsin	20 to box		
Seidlitz Powders	10 to box		
Toilet Items			
Ayer's Face Cream	$1.65 size		
Coty's Cold Cream	$1.00 size		
Hudnut's Three Flowers Vanishing Cream	$0.55 size		
Chesebrough Camphor Ice	1⅛-oz. stick		
Squibb's Magnesia Dental Cream	Regular tube		
Iodent Tooth Paste	Large tube		
Pepsodent Tooth Paste	Large tube		
Listerine Tooth Paste	$0.25 tube		

Brand	Unit	Unit price	Combination price
Toilet Items (*Continued*)			
Forhan's Tooth Paste	Large tube		
Ipana Tooth Paste	$0.50 tube		
Pebeco Tooth Paste	$0.50 tube		
J. and J. Dental Floss	$0.10 size		
Angelus Rouge	$0.60 size		
Princess Pat Rouge (metal)	$0.50 size		
Houbigant's Quelques Fleurs Rouge	#1004 metal		
Coty's Compact Double	#1165 box		
Hudnut's Three Flowers Face Powder	$0.75 size		
Hudnut's Three Flowers Talcum	Tin		
Mennen's for Men Talcum Powder	4-oz. tin		
Eau de Cologne Bath Salts	#4711 jar		
Coty's L'Origan Extract	$1.00 size		
Houbigant's Quelques Fleurs Extract	$1.00 size		
Cheramy Brilliantine, April Showers	#341 bottle		
Mum	$0.35 size		
O-Do-Ro-No	$0.35 size		
X-Basin Depilatory Powder	1⅛-oz. size		
Fitch's Hair Tonic	$0.65 size		
Witch Hazel (double-distilled)	16-oz. btl.		
Neet Depilatory	$0.60 size		
Lifebuoy Soap	Cake		
Lux Flakes	Small box		
Lady Esther Cream	$0.75 jar		
Vaseline Hair Tonic	$0.40 size		
Lyon's Tooth Powder	$0.50 size		
Junis Cream	$0.50 size		
Kotex	12 to carton		
Modess	12 to carton		
Pond's Cold Cream	$0.85 size		
Lifebuoy Shaving Cream	Regular tube		
Golden Glint Powder	$0.25 paper		

Brand	Unit	Unit price	Combination price
Toilet Items (*Continued*)			
Cutex Liquid Polish Remover	$0.35 size		
Cutex Nail White	$0.35 tube		
Cutex Nail Polish	$0.35 size		
Glazo Liquid Nail Polish	$0.30 btl.		
Palmolive Soap	Cake		
Palmolive Shaving Cream	2½-oz. tube		
Ivory Soap (Guest size)	Cake		
Woodbury's Face Powder	$0.25 size		
Woodbury's Facial Cream	$0.50 jar		
Woodbury's Facial Soap	$0.10 cake		
Wildroot Hair Tonic	$0.35 size		
Frostilla	2-oz. btl.		
Jergen's Lotion	$0.50 btl.		
Hind's Honey and Almond Cream	$0.50 btl.		
J. and J. Baby Powder	$0.25 can		
Dr. West's Toothbrush—Adult	$0.50 size		
Prophylactic Toothbrush	$0.50 size		
Maybelline	$0.75 size		
Italian Balm	$0.60 size		
Coty's L'Origan Face Powder	$0.75 size		
Cashmere Bouquet Face Powder	$0.25 size		
Stacomb	Regular tube		
Mennen's Shaving Cream	$0.35 tube		
Colgate's Shaving Cream	$0.25 tube		
Williams' Shaving Cream	$0.35 tube		
Cashmere Bouquet Soap	$0.10 cake		
Williams' Aqua Velva	$0.60 size		
Mahdeen Hair Tonic	$0.60 size		
Burma Shave	$0.50 jar		
Lava Soap	$0.06 size		
Packer's Tar Soap	$0.25 size		
Packer's Tar Shampoo	$0.60 size		

Brand	Unit	Unit price	Combination price
Toilet Items (*Continued*)			
Glover's Mange Remedy	$0.60 size		
Hoppers' Restorative Cream	$1.00 size		
Hudnut's Three Flowers Rouge	$0.55 size		
Hudnut's Permanent Lipstick	#460 stick		
Miscellaneous			
Putnam's Dry Cleaner	6-oz. btl.		
Larvex (without atomizer)	Pint btl.		
Tintex, blue (box)	$0.15 size		
Lysol	$0.30 size		
Lysol	$1.25 size		
Black Flag Powder	$0.35 size		
Bee Brand	$0.25 size		
Flit	Pint		
Gillette Blue Blades	5 to pkg.		
Ever Ready Blades	5 to pkg.		
Putnam Dyes	$0.15 size		
Shumilk	$0.25 size		
Hygeia Nipples	$0.15 size		
Wrigley's Chewing Gum	$0.05 pkg.		
Beechnut Chewing Gum	$0.05 pkg.		
Luden's Cough Drops	$0.05 pkg.		
Hershey's Almond Bar	$0.05 bar		

APPENDIX D

CHAIN AND INDEPENDENT DRUGSTORE PRICES; PRICE QUOTATIONS, AGGREGATES OF QUOTED PRICES, AND PRICE RELATIVES,[a] BY INDIVIDUAL ITEMS

Commodities	Independent stores		Chain stores														
			2–3 stores			4–6 stores			7–10 stores			11–15 stores			16 stores & over		
	No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
All commodities[b]	21,151	$10,132 44	4,206	$2,004 04	98 8	893	$418 23	94 6	772	$334 20	87 2	1216	$542 48	90 2	1516	$639 79	85 4
Laxatives:																	
Phillips Milk Magnesia	151	$ 67 80	30	$ 13 20	98 0	6	$ 2 40	89 1	5	$ 1 79	79 7	8	$ 3 12	86 9	10	$ 3 53	78 6
Feenamint	152	36 76	30	7 21	99 4	6	1 38	93 1	5	0 95	78 6	8	1 56	80 7	10	1 86	76 9
Ex-Lax	155	37 42	30	7 25	100 1	6	1 36	93 9	5	0 95	78 7	8	1 71	88 6	10	1 87	77 5
Syrup Pepsin	152	83 78	30	15 86	95 9	5	2 58	93 6	5	2 20	79 8	8	3 69	83 7	10	4 22	76 6
Nature's Remedy Tablets	132	63 03	25	12 06	99 0	6	2 60	88 7	5	1 92	90 4	6	2 48	86 6	10	4 03	84 4
Fletcher's Castoria	155	54 94	30	10 53	99 0	6	1 88	88 4	5	1 43	80 7	8	2 48	87 5	10	2 87	81 0
Syrup Figs (California)	154	84 88	30	16 08	97 2	5	2 69	97 6	5	2 10	76 2	8	3 52	79 8	10	4 29	77 8
Inner Clean	95	46 07	20	9 79	101 0	6	2 73	93 8	5	2 00	82 5	7	2.79	82 2	10	3 93	81 1
Pluto Water	122	56 66	26	11 81	97 8	6	2 60	93 3	5	2 06	88 7	8	3.03	81 6	10	3 71	79 9
Petrolagar	144	167 26	28	30 07	83 9	6	6 50	93 3	5	4 26	73 4	8	7 60	81 8	10	8 60	74 0
Carter's Little Liver Pills	151	36 53	29	7 04	100 4	5	1 08	89 3	5	0 97	80 2	8	1 86	96 1	10	1 84	76 1
Black Draught	155	35 86	30	6 69	96 4	6	1 23	88 6	5	0 97	83 8	8	1 52	82.1	10	1 82	78 7
Sal Hepatica	152	82 98	30	15 88	97 0	6	2 86	87 3	5	2 29	83 9	8	3 92	89 8	10	4 84	88 7
Squibb's Mineral Oil	137	97 35	29	19 67	95 5	6	4 04	94 6	5	2 90	81 6	8	4.72	83 0	10	5 62	79 1
Squibb's Castor Oil	136	33 60	28	6 95	100 5	6	1 44	97 1	4	0 94	95 1	8	1 84	93 1	10	2 32	93 9

Tonics:																		
Scott's Emulsion	143	80 92	27	15 35	100 5	6	3 08	90 7	5	2 32	82 0	8	3 84	84 8	10	4 64	82 0
Kelp-A-Malt Tablets	120	143 10	25	28 14	94 4	6	6 69	93 5	5	4 47	75 0	8	8 62	90 4	10	8 66	72 6
Adlerika	137	134 19	27	26 27	99 3	6	5 58	95 0	5	4 10	83 7	8	7 12	90 9	10	8 61	87 9
Father John's Medicine	135	77 51	24	13 49	97 9	5	2 67	93 0	4	1 89	82 3	7	3 86	96 1	10	4 85	84 5
Swamp Root	146	159 37	29	30 94	97 7	6	6 02	91 9	5	5 07	92 9	8	7 12	81 5	10	9 58	87 8
Wine Cardui	148	136 10	30	26 81	97 2	6	5 04	91 3	5	4 03	87 7	8	6 32	85 9	10	7 76	84 4
Wampole's Cod Liver Oil	147	133 64	29	25 57	97 0	6	4 94	90 6	5	3 90	85 8	8	6 32	86 9	10	7 24	79 6
Lydia Pinkham's Vegetable Compound	149	192 77	29	36 34	96 9	6	7 20	92 8	5	5 01	77 5	8	8 82	85 2	10	10 58	81 8
Pierce's Favorite Prescription	143	172 70	28	33 95	100 4	6	6 62	91 4	5	5 18	85 8	8	8 53	88 3	10	10 42	86 3
S S.S	151	176 97	30	34 58	98 4	6	6 43	91 4	5	4 92	84 0	8	7 92	84 5	10	10 07	85 9
Squibb's Cod Liver Oil	104	92 28	28	25 13	101 2	5	4 15	93 5	5	3 94	88 8	8	6 32	89 0	10	8 25	93 0
Vinol	46	47 35	6	6 15	99 6	4	3 77	91 6	3	3 14	101 7	8	7 66	93 0	10	9 50	92 3
Headache remedies:																		
Bayer Asperin Tablets (24 tablets)	142	34 67	29	7 08	100 0	6	1 40	95 3	5	0 98	80 2	8	1 68	86 0	10	1 86	76 2
Bayer Asperin Tablets (100 tablets)	136	93 92	29	19 71	98 4	6	3 95	95 3	5	2 86	82 8	8	4 72	85 4	10	5 55	80 4
Bromo Seltzer	148	80 72	29	15 74	99 5	6	2 93	89 3	5	2 27	83 2	8	3 96	90 8	10	4 51	82 7
Anacin Tablets	50	32 01	9	6 16	106 9	4	2 68	101 7	4	2 36	92 2	5	3 45	107 8	9	5 34	92 7
Capudine	146	82 17	30	16 55	98 0	6	3 01	89 1	5	2 50	88 8	7	3 54	89 9	10	5 15	91 5
B C. Headache Powders	153	37 52	29	7 08	99 6	6	1 38	93 8	5	1 13	92 2	8	1 84	93 8	10	2 02	82 4
Other patent and proprietary medicines:																		
Doan's Pills	153	107 58	30	20 70	98 1	6	3 89	92 2	5	2 69	76 5	8	4 82	85 7	10	5 36	76 2
Dr. Edwards Olive Tablets	89	50 96	20	11 49	100 3	5	2 74	95 7	5	2 31	80 7	7	3 43	85 6	10	5 05	88 2
Kruschen Salts	148	118 64	29	23 38	100 6	6	4 54	94 4	4	2 66	83 0	8	5 52	86 1	7	4 79	85 4
Zonite	140	77 70	30	16 16	97 1	6	3 02	90 7	5	2 32	83 6	8	3 95	89 0	8	4 11	92 6
Sloan's Liniment	153	51 22	30	9 67	96 3	6	1 84	91 6	5	1 43	85 4	8	2 36	88 1	8	2 26	84 4
Absorbine Jr	152	176 02	29	32 47	96 7	6	6 29	90 5	5	4 78	82 6	8	8 32	89 8	10	9 73	84 0
Cuticura Ointment	150	39 28	27	7 00	99 0	6	1 49	94 8	5	1 16	88 6	8	1 85	88 3	10	2 37	90 5
Bellans	148	36 85	29	7 26	100 5	6	1 41	94 4	5	1 07	85 9	8	1 88	94 4	10	2 04	81 9
Mentholatum	155	42 76	30	8 03	97 0	6	1 54	93 0	5	1 13	81 9	8	1 85	83 8	10	2 25	81 6
Resinol Ointment	132	74 79	26	14 39	97 7	6	3 31	97 4	5	2 35	83 0	8	3 82	84 3	10	4 28	75 5
Unguentine	153	71 83	30	13 75	97 6	6	2 54	90 2	5	1 99	84 8	8	3 42	91 1	10	3 82	81 4
Vick's Salve	156	50 45	30	9 42	97 1	6	1 73	89 5	5	1 31	81 0	8	2 07	80 0	10	2 64	81 6
Cystex Compound	143	103 45	29	20 96	99 9	6	4 12	94 9	5	3 23	89 3	8	5 04	87 1	10	6 02	83 2
Grove's Bromo Quinine Tablets	150	46 07	30	9 18	99 6	5	1 43	93 1	5	1 23	80 1	8	2 32	94 4	10	2 47	80.4

Commodities	Independent stores: No. of quotations	Independent stores: Aggregate price	Chain stores, 2–3 stores: No. of quotations	2–3 stores: Aggregate price	2–3 stores: Price relative	4–6 stores: No. of quotations	4–6 stores: Aggregate price	4–6 stores: Price relative	7–10 stores: No. of quotations	7–10 stores: Aggregate price	7–10 stores: Price relative	11–15 stores: No. of quotations	11–15 stores: Aggregate price	11–15 stores: Price relative	16 stores & over: No. of quotations	16 stores & over: Aggregate price	16 stores & over: Price relative
Other patent and proprietary medicines—*(Continued)*																	
666 Liquid	156	37.44	28	6.65	99.0	6	1.35	93.8	5	1.16	96.7	8	1.82	94.8	10	2.04	85.0
Grove's Chill Tonic	153	73.86	30	14.42	99.6	6	2.56	88.4	5	2.02	83.7	8	3.50	90.6	10	4.25	88.1
Musterole	158	53.35	30	10.22	100.9	6	1.95	96.2	5	1.50	88.8	8	2.61	96.6	10	2.86	84.7
Pertussin	139	79.19	29	15.82	95.8	6	3.31	96.8	5	2.50	87.8	8	3.97	87.1	10	5.13	90.1
Pinex	149	93.59	29	18.20	99.9	6	3.55	94.2	5	2.69	85.7	8	4.32	86.0	10	5.30	84.4
Sargeant's Pepsin Tablets	72	40.49	17	9.48	99.2	5	2.76	98.2	3	1.47	87.1	6	2.70	80.0	3	1.47	87.1
Lysol ($0.30 size)	156	39.89	30	7.58	98.8	6	1.44	93.9	4	0.84	82.1	8	1.72	84.1	10	2.07	81.0
Lysol ($1.25 size)	130	133.24	28	28.52	99.4	6	5.62	91.4	5	4.22	82.4	8	6.91	84.3	6	5.47	89.0
Dental preparations:																	
Vince	121	87.97	25	17.91	98.5	6	4.04	92.6	5	3.15	86.7	8	5.43	93.4	10	6.12	84.2
Corega	144	48.69	30	9.93	97.9	6	1.92	94.7	5	1.34	79.3	8	2.32	85.8	10	2.59	76.6
Squibb's Magnesia Dental Cream	118	39.79	29	9.37	95.8	6	2.11	104.3	5	1.65	97.9	8	2.64	97.9	10	3.23	95.8
Iodent Tooth Paste	155	68.50	30	13.50	101.8	6	2.41	90.9	5	1.85	83.7	8	2.69	76.1	10	3.45	78.1
Pepsodent Tooth Paste	153	63.95	29	12.01	99.1	6	2.32	92.5	5	1.76	84.2	8	3.04	91.0	10	3.35	80.1
Listerine Tooth Paste	156	36.68	30	7.01	99.4	6	1.37	97.1	5	0.99	84.2	8	1.68	89.3	10	1.93	82.1
Forhan's Tooth Paste	140	68.70	29	13.83	97.2	6	2.66	90.3	5	1.79	73.0	8	3.12	79.5	10	3.56	72.6
Ipana Tooth Paste	153	66.27	30	12.90	99.3	6	2.35	90.4	5	1.84	85.0	8	3.12	90.1	10	3.56	82.2
Pebeco Tooth Paste	143	64.61	28	12.42	98.2	6	2.35	86.7	5	1.89	83.7	8	3.10	85.8	10	3.63	80.4
J. and J. Dental Floss	144	14.59	28	2.90	102.3	6	0.65	94.6	4	0.38	93.8	8	0.80	98.7	10	0.98	97.0
Lyon's Tooth Powder	101	46.22	22	10.47	104.0	6	2.78	101.3	5	1.95	85.2	8	3.78	103.3	10	3.65	79.8

Shaving preparations:																
Mennen's for Men Talcum Powder....	147	35 49	29	7 06	100 9	6	1.33	91 8	5	1.03	85 3	8	1 70	88.0	10	1.96	81.2
Life Buoy Shaving Cream...........	127	42 13	26	8.41	97 5	5	1.63	98 3	4	1.00	75 4	7	2 03	87.4	9	2.24	75.0
Palm Olive Shaving Cream	141	35 55	30	7 22	95 8	6	1 43	94 5	5	1 10	87.3	8	1 91	95 1	10	2 18	86.8
Mennen's Shaving Cream...........	146	49 64	29	9 73	98 7	6	1.88	92 2	5	1 40	82 4	6	1 74	85 3	8	2.17	79.8
Colgate's Shaving Cream......	153	37 79	30	7 33	98 9	6	1 43	96 5	5	1 07	86.7	8	1 87	94 7	10	2.23	90 3
Williams' Shaving Cream...........	153	51 71	30	10 12	99 8	6	1 84	90 7	4	1 16	85 8	8	2 32	85 8	9	2 56	84.1
Williams' Aqua Velva	139	70 81	27	13 02	94 7	6	2 69	88 0	4	1 75	85 9	8	3 46	85 0	4	1.78	91.8
Burma Shave	130	62 81	27	13 10	100 4	6	2 76	95 2	5	1 98	82.0	8	3.45	89 3	10	4.34	89.8
Soaps:																
Cuticura Soap	149	34 49	28	7.00	108 0	6	1 37	102 9	5	1 01	87.3	8	1 80	97 2	10	2 19	94.5
Lifebuoy Soap.....................	154	13 79	28	2 53	100 9	6	0 48	89 3	5	0 29	65 5	8	0 58	80 3	10	0 63	70.0
Lux Flakes	68	8 04	17	2 06	102 7	4	0 45	95 2	5	0 48	81.2	8	0 87	92 1	10	0.99	83.8
Palmolive Soap....	149	8 24	27	1 42	102 5	6	0.30	90 4	5	0.26	94 0	8	0 40	90 4	10	0 47	85.5
Ivory Soap (guest size)	62	3 60	15	0 95	109 0	1	0 05	86 1	5	0 25	86 1	8	0 35	75 4	10	0.50	85.2
Woodbury's Facial Soap...........	146	14 44	30	2 97	100 0	6	0 58	98 3	5	0 43	87 6	8	0 80	101 1	10	0 87	88.0
Cashmere Bouquet Soap...........	151	14 91	30	2 98	100 7	5	0.47	96 0	5	0 44	89 2	8	0 80	101.3	10	0 89	90 5
Lava Soap	124	7.77	22	1 35	97.6	5	0 36	114 8	5	0 30	94.1	8	0 48	95 7	10	0 60	95 7
Packer's Tar Soap.................	151	37.29	30	7 41	100 0	6	1 40	94 5	5	1.06	85.8	8	1 78	90 1	10	2.05	83.0
Face creams:																
Ayer's Face Cream.............. .	101	165.43	21	34 20	99 4	6	9 90	100 7	5	8 25	100.7	8	13 20	100.7	10	16.50	100 7
Coty's Cold Cream.	58	58 69	15	14 77	97 3	3	3.00	98 1	5	5 00	98.1	6	6.30	103.7	8	8.00	98.1
Hudnut's Three Flowers Vanishing Cream.......	128	70 30	25	13 45	98 0	6	3 15	95 6	5	2 70	98 3	8	4 40	100 2	10	5 50	100.2
Lady Esther Cream	68	49 82	17	12 04	96 7	4	2 80	95 6	4	2 36	80 5	6	4 14	94 2	10	5 85	79.9
Junis Cream.	126	59 70	28	13 01	98 1	6	2 63	92 5	5	1 99	84 0	5	2 05	86 5	10	3 70	78.1
Pond's Cold Cream	45	33.56	10	7 27	97 5	4	3 02	101 2	5	3 29	88.2	4	2 47	82 8	9	6.00	89.4
Woodbury's Facial Cream.	137	69 28	30	14 76	97 3	6	2 74	90 3	5	1 99	78 7	8	3.65	90 2	10	4 26	84 2
Hopper's Restorative Cream...... . .	82	80 08	18	17 56	99 9	6	5.59	95 4	5	4 07	83 4	8	6 96	89.1	10	7 99	81.8
Cosmetics:																
Angelus Rouge.............. ..	64	37 21	14	8 37	102 8	5	3 04	104 5	5	2 37	81 5	6	3 54	101 5	8	3 91	84 1
Princess Pat Rouge (metal)... . .	130	65 14	27	13 59	100 4	4	2 00	99 8	5	2 51	100 2	8	4 04	100 8	10	4 47	89.2
Hudnut's Three Flowers Face Powder	153	109 73	27	20 73	107 1	4	3 14	109 5	5	3 93	109 6	8	6 60	115.0	10	7 34	102.3
Hudnut's Three Flowers Talcum. ...	102	26 29	18	4 58	98 7	5	1 28	99 3	5	1 28	99 3	8	2 24	108 7	9	2 47	106.5
Cutex Liquid Polish Remover...... ..	149	50.33	30	10 19	100 6	6	2 02	99 7	5	1 57	93 0	8	2 48	91.8	10	2.89	85.6

Commodities	Independent stores		Chain stores														
			2-3 stores			4-6 stores			7-10 stores			11-15 stores			16 stores & over		
	No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Cosmetics—(*Continued*)																	
Cutex Nail White	147	49 83	30	10 19	100 2	6	2 02	99 3	5	1 57	92 6	8	2 48	91 5	10	2 89	85 3
Cutex Nail Polish	150	50 82	30	10 19	100 3	6	2 02	99 4	5	1 57	92 7	8	2 40	88 6	10	2 89	85 3
Glazo Liquid Nail Polish	129	31 96	25	6 21	100 2	6	1 46	98 2	5	1 10	88 0	7	1 47	84 8	10	2 00	80 7
Woodbury's Face Powder	129	32 73	27	6 67	97 4	6	1 73	113 6	5	1 15	90 7	7	1 62	91 2	8	1 86	91 6
Frostilla	133	46 71	26	8 92	97 7	5	1 70	96 8	5	1 43	81 4	7	2 07	84 2	10	2 78	79 2
Jergen's Lotion	153	71 28	30	13 70	98 0	6	2 53	90 4	5	2 08	89 3	8	3 43	92 0	10	3 75	80 5
Hind's Honey and Almond Cream	153	72 04	29	13 01	95 3	6	2 56	90 6	5	1 93	82 0	8	3 12	82 8	10	3 67	78 0
Maybelline	130	96 03	25	18 37	99 5	5	3 57	96 7	5	3 33	90 2	8	5 56	94 1	9	5 27	79 3
Italian Balm	118	68 37	28	15 74	97 0	6	3 38	97 2	5	2 51	86 6	7	3 65	90 0	10	4 82	83 2
Coty's L'Origan Face Powder	140	101 37	29	19 86	94 6	6	4 20	96 7	5	3 44	95 0	8	5 52	95 3	10	6 91	95 4
Cashmere Bouquet Face Powder	82	20 30	22	5 44	99 9	4	0 98	99 0	2	0 46	92 9	3	0 69	92 9	6	1 42	93 6
Hudnut's Three Flowers Rouge	127	67 64	29	15 70	103 5	6	3 14	98 3	5	2 65	99 5	8	4 39	103 0	10	5 50	103 3
Hudnut's Permanent Lipstick	58	25 46	14	5 94	96 7	2	0 89	101 4	5	2 17	98 9	4	1 88	107 1	8	3 01	85 7
Hair preparations:																	
Newbro Herpicide	82	78 74	16	15 41	100 3	3	3 03	106 6	4	3 15	93 6	8	6 54	85 1	9	7 91	91 5
Fitch's Hair Tonic	128	77 25	22	13 11	98 7	5	2 74	90 8	5	2 64	87 5	8	4 16	86 2	9	4 19	77 2
Vaseline Hair Tonic	152	59 06	30	11 52	98 6	6	2 32	99 5	5	1 89	97 3	8	3 12	100 4	9	3 35	95 8
Wildroot Hair Tonic	139	47 76	27	8 90	95 9	6	2 00	97 0	5	1 56	90 8	8	2 32	84 4	9	2 76	89 3
Stacomb	85	32 74	20	7 26	94 2	4	1 51	98 0	5	1 80	93 5	6	1 88	81 3	8	2 86	92 8
Mahdeen Hair Tonic	117	66 84	27	15 23	98 7	6	3 31	96 6	5	2 53	88 6	7	3 32	83 0	10	5 03	88 0
Packer's Tar Shampoo	139	76 73	27	14 90	100 0	6	3 20	96 6	5	2 25	81 5	8	3 86	87 4	10	4 28	77 5
Glover's Mange Remedy	92	62 91	22	14 70	97 7	5	3 42	100 0	5	2 89	84 5	6	3 94	96 0	8	4 58	83 7

All other toiletries:																
Pepsodent Antiseptic	140	124 23	26	23 26	100 8	6	5 00	93 9	5	3 84	86 6	8	6 42	90 4	10	7 54	85.0
Listerine	154	37 46	30	7 25	99 3	6	1 42	97 3	5	1 13	101 1	8	1 82	93 5	10	2 28	93.7
Mexican Heat Powder	138	38 09	29	8 14	101 7	6	1 56	94 2	4	1 01	91 5	8	1 84	83 3	10	2 29	83 0
Ammens Heat Powder	147	35 83	28	6 62	97 0	6	1 27	86 8	5	1 03	84 5	8	1 72	88 2	7	1 40	82 0
Lavoris	143	36 23	28	6 87	100 8	6	1 46	100 0	5	1 15	94 5	8	1 84	94 5	9	1 84	84 0
Liquid Arvon	129	125 11	25	23 72	97 8	7	6 09	89 7	4	3 56	91 8	8	6 92	89 2	8	6 90	88 9
Chesebrough Camphor Ice	129	15 30	20	2 30	97 0	6	0 70	98 4	4	0 45	75 9	8	0 85	89 6	10	1 00	84 3
Coty's L'Origan Extract	133	137 83	28	29 57	101 9	6	6 30	101 3	5	5 28	101 9	8	8 80	106 2	10	10 58	102.1
Houbigant's Quelques Fleurs Extract	119	122 68	23	23 86	100 6	6	6 10	98 6	5	5 28	102 4	8	8 10	98 2	10	10 01	97 1
Cheramy Brilliantine, April Showers	33	16 89	4	2 10	98 2	3	1 50	97 7	5	2 58	100 8	2	1 05	102 6	7	3 73	104 1
Mum	150	50 33	29	9 55	98 2	6	1 92	95 4	5	1 49	88 8	8	2 32	86 4	10	2 73	81.4
O-Do-Ro-No	150	50 92	30	10 13	99 5	6	2 06	101 1	5	1 51	89 0	8	2 48	91 3	6	1 81	88 9
X-Basin Depilatory Powder	53	27 46	11	5 61	98 4	3	1 52	97 8	5	2 18	84 2	7	3 37	92 9	8	3 78	91 2
Neet Depilatory	143	82 60	30	16 96	97 9	6	3 31	95 5	5	2 35	81 4	8	3 85	83 3	10	4 16	72 0
Kotex	155	33 32	29	6 16	99 1	6	1 14	88 7	5	0 94	87 3	8	1 44	84 0	10	1 76	81 9
Modess	141	29 81	24	4 90	96 5	6	1 14	89 9	5	0 94	88 5	8	1 44	85 2	10	1 76	83 0
Golden Glint Powder	143	35 53	29	7 15	99 2	5	1.23	99 0	5	1 07	86 1	7	1 55	89 1	10	2 11	84 9
J. and J. Baby Powder	152	35 64	30	6 87	97 7	6	1 25	88 8	5	1 01	86 1	8	1.68	89 6	10	1 75	74 6
Miscellaneous:																
Borden's Malted Milk (powder)	37	28 14	10	7 12	93 6	3	1 87	82 0	3	2 21	96 9	6	4 48	98 2	5	2.77	72 9
Ovaltine	133	97 58	28	19 97	97 2	6	4 01	91 0	5	2 81	76 6	8	4 78	81.4	10	5 43	74 0
Scholl's Zino Pads (corn)	152	51 68	30	10 24	100 4	6	1 98	97 1	5	1 65	97 1	8	2 48	91 2	10	2 82	82 9
Dextro-Maltose No. 1	149	104 97	27	20 33	106 9	6	4 04	95 6	5	2 76	98 4	8	5 52	97 9	10	5 93	84 2
Horlick's Malted Milk	149	140 27	30	27 80	98 4	6	5 14	91 0	5	3 89	82 6	8	6 70	89 0	10	7 79	82 8
Blue Jay Corn Plaster (6)	152	37 28	30	7 02	95 4	6	1 41	95 8	5	1 13	92 1	8	1 68	85 6	10	2 02	82 4
Dr. West's Tooth Brush (Adult)	150	69 83	30	13 98	100 1	6	2 60	93 1	5	2 36	101 4	8	3 74	100 4	10	4 43	95 2
Prophylactic Toothbrush	155	69 01	30	13 04	97 6	6	2 55	95 5	5	1 95	87 6	8	3 12	87 6	10	3 58	80 4
Putnam's Dry Cleaner	118	44 97	22	8 41	100 3	3	1 07	93 6	5	1 80	94 5	6	2 30	100 6	10	3 10	81.3
Larvex (without atomizer)	94	90 96	17	16 38	99 6	5	4 50	93 0	5	4 17	86 2	8	6 74	87 1	9	7 21	82.8
Tintex, blue (box)	167	21 19	28	4 15	106 6	6	0 83	108 4	5	0 60	93 8	8	1 08	105 9	10	1 36	106.8
Black Flag Powder	115	38 88	26	8 59	97 7	5	1 61	95 2	5	1 60	94 7	8	2 37	87 6	10	3 18	94 1
Bee Brand	149	36 59	30	7 48	101 5	6	1 37	93 0	4	0 84	85 5	8	1 82	92 6	10	2.06	83.9
Flit	123	67 04	24	12 71	97 2	6	3 05	93 3	5	2 32	80 0	8	4 12	94 5	8	3 53	64.8
Gillette Blue Blades	155	38 55	30	7 46	100 0	6	1 50	100 5	5	1 23	98 9	8	2 00	100 5	10	2 22	89.3

Commodities	Independent stores		Chain stores														
			2-3 stores			4-6 stores			7-10 stores			11-15 stores			16 stores & over		
	No. of quotations	Aggregate price	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative	No. of quotations	Aggregate price	Price relative
Miscellaneous—(*Continued*)																	
Ever Ready Blades	148	49 48	30	9 71	96 8	6	1.76	87 7	5	1 39	83 2	8	2 25	84 2	10	2 66	99.6
Putnam Dyes	152	20 90	30	4 05	98 2	6	0 75	90 9	5	0 58	84 9	8	1 03	93 2	10	1 26	91 3
Shumilk	155	36 58	30	6 97	98 4	6	1 24	87 6	5	1 03	87 3	8	1 80	95 3	10	1 98	83.9
Hygeia Nipples	155	23 36	30	4 45	98 4	6	0 82	90 1	5	0 67	88 3	8	1 15	95 4	10	1 35	89 6
Wrigley's Chewing Gum	156	7 73	30	1 50	100 8	6	0 30	100 8	5	0 17	67 1	8	0 30	75 6	10	0 47	94 2
Beechnut Chewing Gum	156	7 73	30	1 50	100 8	6	0 30	100 9	5	0 17	67 1	8	0 30	75 6	10	0 47	94.2
Luden's Cough Drops	156	7 78	30	1 50	100 2	6	0 25	83 6	5	0 25	100 2	8	0 35	87 6	10	0 50	100 2
Hershey's Almond Bar	155	7 67	30	1 50	101 0	6	0 30	101 0	5	0 17	67 3	8	0 40	101 0	10	0 47	94 3
Aromatic Cascara (Sharpe and Dohme)	73	35 08	5	2 50	104 0	3	1 34	92 9	1	0 45	93 6	3	1 39	95 4	1	0 50	104.0
Myeladol	129	225 95	24	42 38	100 8	6	9 90	94 2	5	8 23	94 2	6	8 86	84.3	10	14 24	81.3

[a] The price relative represents a per cent of the average price of independent stores. In each instance the independent store price equals 100 per cent.

[b] All figures expressed to nearest cent and not adjusted to total.

APPENDIX E

INDEPENDENT STORE EXPENSES AND PROFITS FOR 1935[a]

Kind of business	Net sales (thousands of dollars)	Proprietor's[b] salary, % of net sales	Proprietor's salary (thousands of dollars)	Other expenses (thousands of dollars)	Total expenses		Profit[c] % of net sales	Gross margin, % of net sales
					Amount (thousands of dollars)	% of net sales		
Grocery, and grocery and meat	3,849,391	5.2	199,710	477,934	677,644	17.6	1.6	19.2
Drugs	913,388	10.5	95,907	208,406	304,313	33.2	2.3	35.5
Variety	71,944	8.8	6,327	15,033	21,360	29.7	5.2	34.9
Furniture	597,255	7.9	47,187	186,446	233,633	39.2	5.9	45.1
Shoes	221,712	10.0	22,171	56,951	79,122	35.8	3 3	39.1
Filling stations	1,530,994	9.8	150,038	228,711	378,749	24.8	2.0	26.8
Women's ready-to-wear	579,900	9.2	52,891	165,680	218,571	36.8	0.9	37.7
Men's wear	514,640	10.0	51,646	131,299	182,763	35.6	3.2	38.8

[a] Source: Census of Business: 1935.
[b] Proprietors' salary in per cent computed from Dun and Bradstreet's "Retail Survey 1936."
[c] Profit percentage computed from Dun and Bradstreet's "Retail Survey 1936."

APPENDIX F

CONSUMER BUYING-PREFERENCE SURVEY, FLORIDA

Code______________

Name of Consumer____

Address________________________ City________________

1. At what type of store do you purchase most of your:

	Chain	Independent
a. Groceries..................	________	________
b. Drugs....................	________	________
c. Shoes....................	________	________
d. Women's ready-to-wear....	________	________

2. Why do you buy most of your groceries at this type of store? Mark three.

a. Lower price.......... ..	______	*g.* Advertising...........	______
b. Delivery...............	______	*h.* Pleasing personality...	______
c. Credit.................	______	*i.* Good store appearance	______
d. Wider selection of goods	______	*j.* Sanitary and clean....	______
e. Better quality..........	______	*k.* Other (specify)........	______
f. Convenient location.....	______		

3. Why do you buy most of your women's ready-to-wear at this type of store?

a. Lower price............	______	*g.* Advertising...........	______
b. Delivery...............	______	*h.* Pleasing personality...	______
c. Credit................ .	______	*i.* Good store appearance	______
d. Wider selection of goods	______	*j.* Sanitary and clean....	______
e. Better quality.	______	*k.* Style.................	______
f. Convenient location.....	______	*l.* Other (specify)........	______

4. Relief ☐ Monthly rental $15.00 and under ☐ $16.00 to $25.00 ☐ $26.00 to $50.00 ☐ Over $50.00 ☐

....

5. Remarks____

____

____

____

Date________________, 193___ ________________________

Signature of Interviewer

APPENDIX G

REASONS WHY CONSUMERS BUY MOST OF THEIR GROCERIES FROM CHAINS OR INDEPENDENTS, BY RANK OF MENTION

Reason for preference	First choice	%	Second choice	%	Third choice	%	Total	%
Reasons for buying from chains								
Lower price	888	59.36	242	16.33	118	8 10	1,248	28.14
Delivery	17	1 14	39	2.83	48	3 29	104	2.34
Credit	21	1.40	14	0.94	13	0 89	48	1 08
Wider selection of goods	78	5 21	424	28 62	330	22 65	832	18 76
Better quality	96	6 42	287	19 37	248	17 02	631	14.23
Convenient location	225	15 04	220	14 84	253	17.36	698	15.74
Advertising	43	2 87	75	5 06	113	7.76	231	5.21
Pleasing personality	82	5 48	92	6.21	146	10.02	320	7.22
Good store appearance	1	0.07	20	1 35	46	3 16	67	1.51
Sanitary and clean	7	0.47	42	2 83	103	7.07	152	3.43
Other reasons	38	2 54	27	1.82	39	2.68	104	2.34
Total	1,496	100.00	1,482	100.00	1,457	100.00	4,435	100.00
Reasons for buying from independents								
Lower price	210	18.20	115	10.46	91	8.24	416	12 39
Delivery	41	3 55	109	9.92	85	7 70	235	7 00
Credit	240	20 80	118	10.74	45	4 08	403	12 00
Wider selection of goods	39	3 38	102	9.28	106	9 60	247	7.36
Better quality	110	9.53	203	18.47	174	15.76	487	14.51
Convenient location	272	23 57	220	20.02	183	16.57	675	20.11
Advertising	10	0.87	10	0.91	31	2 81	51	1 52
Pleasing personality	122	10.57	142	12.92	254	23.01	518	15.43
Good store appearance	3	0.26	16	1.46	18	1.63	37	1.10
Sanitary and clean	11	0.95	34	3.09	72	6.52	117	3.49
Other reasons	96	8.32	30	2.73	45	4.08	171	5.09
Total	1,154	100.00	1,099	100.00	1,104	100 00	3,357	100 00

APPENDIX H

REASONS WHY CONSUMERS BUY MOST OF THEIR WOMEN'S READY-TO-WEAR FROM CHAINS OR INDEPENDENTS, BY RANK OF MENTION

Reason for preference	First choice	%	Second choice	%	Third choice	%	Total	%
Reasons for buying from chains								
Lower price	436	51 05	140	16.77	92	11.14	668	26.56
Delivery	5	0 59	4	0.48	3	0 36	12	0.48
Credit	39	4 57	6	0.72	9	1.09	54	2.15
Wider selection of goods	72	8 43	249	29.82	143	17.31	464	18.45
Better quality	73	8.55	186	22.28	202	24.45	461	18 33
Convenient location	14	1 64	26	3.11	62	7.51	102	4 05
Advertising	48	5 62	49	5.87	73	8.84	170	6 76
Pleasing personality	22	2 58	48	5.75	80	9 68	150	5 96
Good store appearance	2	0 23	19	2.27	25	3 03	46	1.83
Sanitary and clean	1	0 12	6	0 72	7	0 85	14	0 56
Style	132	15 45	99	11 85	124	15 01	355	14 11
Other reasons	10	1 17	3	0 36	6	0.73	19	0 76
Total	854	100.00	835	100 00	826	100 00	2,515	100 00
Reasons for buying from independents								
Lower price	290	18.92	179	12 01	135	9 22	604	13 46
Delivery	16	1.04	35	2 35	38	2.60	89	1 98
Credit	210	13 70	74	4 96	49	3 35	333	7 42
Wider selection of goods	169	11 02	222	14.89	187	12.77	578	12 88
Better quality	298	19.44	431	28.91	253	17.28	982	21 88
Convenient location	53	3.46	79	5.30	60	4.10	192	4.28
Advertising	45	2 94	58	3.89	86	5.87	189	4 21
Pleasing personality	107	6.98	131	8 78	288	19.67	526	11.72
Good store appearance	11	0 72	19	1.27	64	4 37	94	2 09
Sanitary and clean	3	0.19	7	0.47	13	0.89	23	0.51
Style	243	15.85	226	15 16	245	16 74	714	15.91
Other reasons	88	5.74	30	2.01	46	3.14	164	3 66
Total	1,533	100 00	1,491	100.00	1,464	100.00	4,488	100.00

APPENDIX I

CHAIN STORE TAX LAWS AS OF JULY 1, 1937

State	Date	Type	Provisions	Present status
Alabama	1935	GLT[a]	$1 for one store, to $112.50 per store over 20; and filing fee of 50¢ per store.	Supersedes 1931 law which was upheld by a State court. New law effective Jan. 1, 1936. Exempts stores selling petroleum products principally; and some sales of ice.
Colorado	1934	GLT	$2 for one store, to $300 per store over 24 Filing fee of 50¢ per store.	Approved by referendum vote in 1934. Effective Jan. 1, 1935. Applies also to wholesale stores.
Florida	1935	GLT GRT[a]	$10 for one store, to $400 per store over 15; ½ per cent gross receipts applying to all stores subject to the act.	Supersedes 1931 and 1933 laws. Effective July 1, 1935. Provided for a graduated gross receipts tax ranging up to 5 per cent. Provided that if GGRT was invalidated, GLT would be doubled. State supreme court held GLT constitutional but ruled against GGRT. However, the ½ per cent gross receipts tax to apply to all retailers subject to the act Appealed to the Supreme Court of the United States. Petition denied. Exempts filling stations selling petroleum products exclusively.
Georgia	1937	GLT	$2 for one store, to $200 per store over 39. Special tax of $2,000 to $10,000 per store when combining mail-order business with over the counter sales.	Effective July 1, 1937. Exempts filling stations.
Idaho	1933	GLT	$5 for one store, to $500 per store over 19. Filing fee of 50¢ per store. Fees progressive and retroactive.	Effective May 1, 1933. Exempts filling stations and voluntary chains. Upheld by Idaho Supreme Court.
Indiana.	1929 1933	GLT	$3 for one store, to $150 per store over 20. Filing fee, 50¢ per store.	Amends 1929 law to increase maximum levy. The 1929 act was upheld by the Supreme Court of the United States.

State	Date	Type	Provisions	Present status
Iowa..............	1935	GLT	$5 each, 2 to 10 stores; up to $155 per store over 50.	Effective July 1, 1935. Exemptions include nonprofit cooperative associations. A graduated gross receipts tax section of the act was declared unconstitutional by state courts and the Supreme Court of the United States.
Kentucky...........	1934 1936	GLT	$2 for one store, to $300 per store over 50.	1936, amends 1934 law by increasing maximum levy. Effective July 1, 1936. Exempts filling stations if 70 per cent of business is in petroleum products.
Louisiana...........	1934	GLT	Provides classifications according to number of stores operated everywhere. Louisiana stores taxed at rate applicable to classifications in which they fall. $10 each, 1 to 10 stores, up to $550 per store over 500.	Supersedes 1932 law. Effective Jan. 1, 1935. Some exemptions. Supreme Court of the United States upheld law May, 1937.
Maryland.........	1933	GLT	$5 each, 2 to 5 stores, to $150 per store over 20.	Effective June 1, 1933. Exempts filling stations selling petroleum products principally.
Michigan.........	1933	GLT	$10 each, 2 to 3 stores, up to $250 per store over 25.	Effective July 17, 1933. Exempts filling stations. Upheld by state supreme court. Appeal to Supreme Court of the United States dismissed at request of counsel.
	1935	GLT	Applies to leased departments, concessions, etc. $10 each, 2 to 10 counters; to $25 per counter over 25.	In effect.
Minnesota	1933	GLT GGRT[a]	$5 each, 2 to 10 stores; to $155 per store over 50. 1/20 of 1 per cent on gross sales below $100,000 to 1 per cent on sales over $1,000,000.	Effective July 1, 1933. Exemptions include filling stations and cooperative associations. Graduated gross receipts provision held unconstitutional in the fall of 1937.
Mississippi..........	1936	GLT	$3 each, 1 to 2 stores, to $300 per store over 40.	Effective March 26, 1936. Exempt filling stations, also gas- and electric-appliance stores operated by utilities.
Montana............	1933 1937	GLT	$2.50 each, 1 to 2 stores, to $30 per store over 10. Filing fee of 50¢ per store. Rates increased: $5, to $200 per store over 4.	Effective July 1, 1933. Approved March, 1937. Effective Jan. 1, 1938.
North Carolina......	1935	GLT	$50 each, 2 to 5 stores, to $225 per store over 201.	Amends 1933 law. Effective June 1, 1935. Exempts filling stations.

State	Date	Type	Provisions	Present status
Pennsylvania. . . .	1937	GLT	Graduated tax which amounts to $500 on each store over 500.	Enacted May, 1937. Litigation threatened under due process clause of constitution.
South Carolina . .	1930 1933	GLT	$5 for one store, to $150 per store over 30.	1930 law reenacted in 1933. Exempts filling stations and stores in unincorporated places.
South Dakota . .	1937	GLT	$1, up to $250 per store over 40.	Replaces 1935 act held invalid by the state supreme court. Effective 90 days after adjournment of 1937 legislative session.
Tennessee	1937	GLT	Stores in excess of one taxed at rate of $3 per 100 square feet of floor space.	Effective April 1, 1937
Texas	1935	GLT	$1 for one store to $750 per store over 50. Filing fee, 50¢ per store.	Effective Jan. 13, 1936. Exemptions include some filling stations, motor-vehicle service, and dairy products stores. *Enforcement restrained by permanent injunction* granted by a district court. Appealed to higher state court.
West Virginia .	1933	GLT	$2 for one store, to $250 per store over 75. Filing fee of 50¢ per store. Applies to retail and wholesale stores.	Effective June 15, 1933. Upheld by Supreme Court of the United States.
Wisconsin	1935	GLT	$25 each, 2 to 5 stores, to $250 per store over 25.	Repeals 1933 law. Expired July 1, 1937. New law enacted since. Exempts cooperative associations.

Principal source: "Discriminatory Restrictions on Retailing," United States Chamber of Commerce, March, 1937; many items obtained directly from the respective state tax commissions.

[a] Symbols:
GLT—Graduated License Tax
GRT—Gross Receipts Tax
GGRT—Graduated Gross Receipts Tax

APPENDIX J

STATE CHAIN STORE TAXATION LAWS UPHELD IN WHOLE OR IN PART BY COURTS

Alabama.—A bill was passed by the Alabama state legislature in 1931 levying a tax on every person, etc., operating one or more stores, retail or wholesale, except those selling principally petroleum products. The bill provided for a graduated tax based on the number of stores, the rates ranging from $1 on one store up to $75 on each store over 20. This law was declared constitutional by the Circuit Court of Montgomery County. The act was superseded in 1935 by a graduated license tax ranging from $1 for one store, to $112.50 for each store over 20; and a filing fee of 50 cents per store.

Florida.—Florida enacted a tax measure in June, 1931. It provided that any person, etc., operating one or more retail stores (except filling stations selling exclusively gasoline and other petroleum products) should pay, with no exemptions, a tax ranging from $5 for one store, up to $40 for each store over 75 in any one county, and up to $50 per store in excess of 75 in different counties; there was a $3 levy for each $1,000 of stock carried in each store. A Florida Circuit Court ruled the statute constitutional on Nov. 11, 1931. The Supreme Court of Florida affirmed the decision of the lower court and an appeal was taken to the Supreme Court of the United States. The Supreme Court of the United States upheld the right of the state legislature to make the distinction between chain stores and other retail stores the occasion of classification for purposes of taxation. It held, however, that those provisions which increase the tax if the owner's stores are located in more than one county are unreasonable and arbitrary, and violate the guaranties of the Fourteenth Amendment of the Federal Constitution. The Court said there was no more reason for adopting county lines as a measure of the tax than there would be in taking for this purpose ward lines or lines arbitrarily drawn through the state without regard to county boundaries. With respect to a tax on the value of stock carried in each store or for sale in such store, the Supreme Court held that in the case of chain warehouses, as compared to wholesale houses, the difference in the nature of the business conducted is sufficient to justify a different classification of the two sorts of warehouses for taxation. It was held that with respect to filling stations, their exemption from the tax allowed by the chain store act could not be declared offensive to the guaranties of the Fourteenth Amendment. The cause was remanded for further proceedings not inconsistent with the Supreme Court's opinion.

A new law was passed in June, 1933. The measure of the tax was the number of stores operated in the state, and the rate ranged from $5 for one store, up to $100 each for stores in excess of 75. There was provided also a

tax of $3 for each $1,000 of floor stock. The state authorized municipalities to tax chain stores at the equivalent of 50 per cent of the state tax, graduated in accordance with the number of stores in the municipality; it also authorized a county tax of 50 per cent of the state tax, graduated according to the number of stores in the county.

The 1931 and 1933 acts were superseded in 1935 by the enactment of a law levying a graduated license tax ranging from $10 for one store, to $400 per store over 15; and a graduated gross receipt tax ranging from ½ of 1 per cent of gross receipts of one store, to 5 per cent for each store over 15. This act has a "retroactive" clause. It provides that if the gross receipts tax should be invalidated, the license tax would be doubled. Filling stations are exempted. A Federal Court granted a temporary injunction on the gross receipts tax feature. Lower state courts granted temporary injunctions with respect to the entire act. It was provided that if the entire act should be held invalid the 1933 law would remain in force.

The state supreme court held the graduated license tax to be constitutional but ruled against the graduated gross receipts tax. The ½ of 1 per cent gross receipts tax was to remain in effect, applying to all retailers subject to the act. An appeal was taken to the Supreme Court of the United States. The petition was denied.

Idaho.—A law enacted in March, 1933, effective on May 1, 1933, taxes chain stores on a graduated scale ranging from $5 for one store to $500 for each store over 19. Gasoline filling stations and voluntary chains are exempted. This law has been upheld by the Supreme Court of Idaho. The rate of tax not only progresses with increases in the number of stores, but, as additional stores are opened, the tax is increased on all existing stores.

Indiana.—The Indiana state legislature passed a law in 1929 levying a special tax on chain stores. The measure of the tax was the number of stores being operated. The tax was progressive, ranging from $3 per year for one store to $25 per year for each store in excess of 20. This law was held to be constitutional by the Supreme Court of the United States in May, 1931. The Supreme Court divided five to four in upholding the Indiana statute, which was the first of these chain store tax laws to be passed upon by that body. The majority opinion emphasized the fundamental importance of the tax power, the wide discretion to be permitted to the states in selecting the objects of taxation, and the principle that classification for taxation is not to be deemed arbitrary if based upon a reasonable distinction. Such a distinction between chain and independent stores was said to be present in the advantages which the former have in abundant capital, efficient management, and capacity for mass distribution. This law was amended in 1933, the maximum levy being increased from $25 to $150 per store in excess of 20.

Iowa.—The legislature of the state of Iowa enacted a law in 1935 levying a graduated license tax on retail stores, ranging from $5 each on 2 to 10 stores, up to $155 per store after 50; also a graduated gross receipts tax on chain stores, the rates being: on each $10,000 or fraction to $50,000, a tax of $25 up to $1,000 on amounts over $9,000,000. Exemptions include nonprofit cooperative associations. Temporary injunctions were granted by the

Federal District Court and state circuit court. Later the state circuit court upheld the act. An appeal was taken to the Iowa Supreme Court. A three-judge Federal court upheld the license tax but ruled against the gross receipts tax. The case was appealed to the Supreme Court of the United States, which held unconstitutional the gross receipts section of the law.

Kentucky.—In the state of Kentucky a law was passed in 1930 levying on retail stores a graduated tax on a percentage basis, increasing with the volume of gross retail sales. The tax rate progressed from 1/20 of 1 per cent of gross sales on a volume of $400,000 or less, up to 1 per cent of excess of gross sales over $1,000,000. This law was held to be constitutional by the Kentucky Court of Appeals in 1931. An appeal was taken to the Supreme Court of the United States. The cause was remanded to a district court of three judges for hearing on the merits. This law was repealed when a 3 per cent gross sales tax law was passed in June, 1934. In July, 1934, Kentucky levied a special tax on chain stores. The rate of tax ranged from $2 for one store, to $150 per store over 50. Filling stations were exempted if 70 per cent of the business was in petroleum products.

On May 11, 1936, the Governor approved an amendment increasing the maximum tax to $300 per store over 50.

Louisiana.—Louisiana enacted a law in July, 1932, levying a tax on those operating two or more retail stores, with certain public utility and filling station exemptions. The rate was $15 each on two stores, but not to exceed five, and was graduated up to $200 on each store over 50. This was superseded in 1934 by a law levying a graduated license tax measured by the total number of stores operated by a company anywhere in the United States, but applying only to the stores operated within the State. The rate is from $10 per store under 10, up to $550 per store over 500. For example, if a company operates over 500 stores in the United States, but only 40 in Louisiana, it will be taxed at the rate of $550 per store in Louisiana.

A Federal court granted temporary injunction. In 1936 a three-judge Federal district court denied permanent injunction and dismissed the complaint. Appealed to Supreme Court of the United States and the law was held valid by a four to three decision, May 17, 1937.

Michigan.—In July, 1933, the Michigan state legislature passed, over the Governor's veto, a chain store tax bill. The measure of the tax is the number of stores being operated in the state. The rate of tax ranges from $10 each for 2 and 3 stores, up to $250 each for stores in excess of 25. Filling stations are exempted. This law was upheld by the Wayne County Circuit Court in December, 1933. It was later upheld by the Michigan Supreme Court. An appeal to the Supreme Court of the United States was dismissed at request of counsel.

In 1935 a bill was passed levying a tax on leased departments, concessions, etc. The rate of tax is $10 each on 2 to 10 counters, up to $25 per counter over 25.

Mississippi.—The legislature in Mississippi passed a law in 1930 levying a tax on the operation of retail stores. The tax was based on the gross income of all stores, the rate being 1/4 of 1 per cent. If more than 5 stores

were operated by one person an additional tax of $\frac{1}{4}$ of 1 per cent was levied. This law was declared constitutional by the Federal district court. However, this became obsolete because of the state's 1932 revenue act superseding it which levied a tax of 2 per cent on sales with no discrimination between chains and other retail stores.

In 1936 a graduated license tax was enacted, the rates ranging from $3 each for 1 or 2 stores, up to $300 per store over 40. Exemptions were filling stations and appliance stores operated by utilities.

North Carolina.—In North Carolina, in 1929, a law was passed, levying a tax on the operation of two or more retail stores, except automobile and motorcycle dealers and service stations. The basis of the tax was the number of stores in operation and the rate was $50 per year for each store in excess of one. This tax law was held to be constitutional in 1930 by the North Carolina Supreme Court, and this decision was affirmed by the Supreme Court of the United States in October, 1931. This law was replaced in 1933 by a graduated license tax law. The tax ranged from $50 each for 2 to 5 stores up to $150 on each store over 51. The 1933 law was amended in 1935 to increase the maximum levy to $225 per store over 201. Filling stations are exempt.

South Carolina.—South Carolina passed a bill in 1930 levying a tax on any individual, etc., operating one or more retail stores (except gasoline filling stations) in incorporated cities or towns. The tax rate is graduated from $5 for the first store, up to $150 for each store over 30. The constitutionality of this law was sustained by a three-judge Federal Court and later by the State Supreme Court. This law was reenacted in 1933.

South Dakota.—In 1935 the legislature enacted a law providing for a graduated license tax on retail stores, ranging from $1 for one store, to $10 per store over 10; also a graduated gross receipts tax ranging from $\frac{1}{8}$ of 1 per cent on less than $50,000, to 1 per cent over $1,500,000. The act provided for a tax of $\frac{1}{5}$ of 1 per cent on all gross sales at wholesale. A state lower court declared the license-tax section valid and gross receipts tax unconstitutional. The law was declared invalid by the South Dakota Supreme Court in November, 1936. In March, 1937, the Governor approved a bill levying a tax ranging from $1 for one store to $250 per store over 40.

Virginia.—The Virginia state legislature passed a law levying a special tax on any individual, etc., operating a distributing house to distribute merchandise among his retail stores. This is a graduated tax based on the amount of purchases. The rate on purchases of $1,000 or less is $10. When purchases amount to more than $100,000 the rate is $20 on the first $2,000; 20 cents on $100 from $2,000 to $100,000; and 10 cents on $100 on all in excess of $100,000. The United States District Court, Eastern District of Virginia, in 1931, held this law to be constitutional, and the decision was affirmed by the Supreme Court of the United States.

West Virginia.—A law enacted in 1933 levies a graduated license tax ranging from $2 for 1 store, to $250 per store over 75; plus a filing fee of 50 cents each. The law applies to retail and wholesale stores. It was upheld by the Supreme Court of the United States in 1935.

APPENDIX K

SOME OF THE CITY ORDINANCES TAXING CHAIN STORES AND OTHER FORMS OF RETAILING, AS OF MARCH 15, 1937

Municipality	Type	Rates, status, etc.
Allentown, Pa.	GLT[a]	Merchants: $2 for first, $2,000 of sales, to $100 on sales of $200,000 or more. Restaurants: $5 on sales of $2,000, to $25 on sales of $5,000 or more. 1920 ordinance amended in 1933.
Atlantic City, N. J.	LT[a] GLT	Variety stores: $150 a year. Department stores: $200 a year. Restaurants: $15 to $120 a year, based on number of tables. Enacted 1935.
Augusta, Ga.	GGRT[a] GGST[a]	Merchants: On sales or receipts, $10 for less than $5,000, to $110 for $100,000; plus $5 for each additional $20,000. Enacted 1935.
Bainbridge, Ga.	GGRT	No tax on receipts to $20,000; 1/8 of 1 per cent on $20,001 to $30,000, up to 5 per cent on receipts over $70,000. Effective May 1, 1934.
Baton Rouge, La.	GGST	$5 for less than $5,000 gross sales, to $1,200 for $1,000,000, or more. Enacted 1935.
Bluefield, W. Va.	LT	One-third of 1 per cent of gross sales, all retailers. Adopted July 1, 1936.
Charleston, W. Va.	ST[a] CST[a]	One-tenth of 1 per cent on sales over $10,000. Expired June 30, 1937. $2 for one store, to $250 per store over 75. Filing fee of 50 cents each. Effective July 1, 1935.

Municipality	Type	Rates, status, etc.
Clarksburg, W. Va.	GLT	$2 for one store, to $200 per store over 20. Or sum equal to state tax. Effective Sept. 1, 1935.
Columbia, S. C.	GGST	From $10 on sales up to $2,500, to $45 on sales of $20,000; plus $1 per $1,000 excess. License ordinance 1935.
Durham, N. C.	GLT	Applying to merchants not subject to chain store tax: $5 on sales under $5,000, to $40 on sales from $100,000 to $150,000; plus 20 cents per $1,000 over $150,000. Ordinance 1934–1935.
	LT	$50 per store in excess of one.
Easton, Pa.	GGST	$2.50 on sales under $5,000, to $100 on sales of $300,000 or over. Enacted 1933.
Fredericksburg, Va.	CST	$250 for each store over one. Passed 1933. Held invalid in lower Virginia court 1935, but held valid by state supreme court, March, 1937.
Georgetown, S. C.	GGST	$10 on sales up to $1,000, to $100 on sales of $75,000 to $100,000; plus $1 per $1,000 excess. Ordinance 1935.
Huntington, W. Va.	GRT[a]	One-fourth of 1 per cent gross receipts tax. A 1 per cent consumers' tax was invalidated by state supreme court, 1936. The court upheld the gross receipts tax.
Kansas City, Mo.	GGRT	Exclusive food retailers: 50 cents per $1,000, or fraction. Restaurants: $25 to $250 based on seating capacity. Other merchants: $25 per year.
Los Angeles, Calif.	GGRT	$5 on less than $5,000, to $3,835 on $30,000,000 or more, 1936. Variety, department, drug- and dry-goods stores: $7.50 on first $15,000; plus 50 cents per $1,000 or fraction in excess.
	GGST	Restaurants, soda fountains, soft drinks: $6 on sales under $12,000, to $62.60 on $90,000 and over.

Municipality	Type	Rates, status, etc.
Louisville, Ky.	LT	A maximum tax of $75. Enacted 1933.
Lynchburg, Va.	GGST	Retailers: $15 on $1,000, to $1 per $1,000 on sales over $300,000. Restaurants and fountains: $25 a year; plus $2.75 per $1,000 of purchases of table and fountain supplies.
Montgomery, Ala.	GGST	One per cent on first $10,000; ½ of 1 per cent on first half of sales over $10,000; ¼ of 1 per cent on second half of sales over $10,000. 1936.
New Orleans, La.	GGST	Merchants: $5 on sales under $5,000, to $6,000 on sales of $5,000,000 or more. Fountains, soft drinks, ice cream: $5 on less than $1,000, to $1,000 on $200,000 or more. Ordinance 1934.
New York, N. Y.	ST	Enacted 1934. Two per cent. Some exemptions. Tax upheld in state supreme court.
Oakland, Calif.	GLT	Merchants not otherwise taxed on specific goods: $6 on one employee, to $1 each on 11–310; and 50 cents each additional person. Ordinance 1933.
Paducah, Ky.	GLT	Merchants: $10 on less than $1,000 stock, to $150 on $60,000 or over. Restaurants: $25 annually. Soda fountains: $25 annually. Ordinance 1935.
Petersburg, Va.	GLT	Merchants: $20 on $4,000 purchases, to 10 cents per $100 on purchases over $200,000. Restaurants: $25 plus 5 per cent of annual rental over $100. Soda fountains: $15 on $300 capital, to $50 where more than $1,000 is invested.
Phoenix, Ariz.	GLT	$10 on sales up to $5,000, to $150 on $50,000 to $100,000; plus $1 for each $50,000 or fraction over $100,000. Ordinance 1935.

Municipality	Type	Rates, status, etc.
Portland, Ore.	CST	$6 for one store, to $50 per store over 20. Effective 1932. Tax sustained by referendum vote in 1932.
St. Louis, Mo.	ST	$1 per $1,000 sales. Also ad valorem tax, $17 per $1,000 of stock. Enacted 1934.
Santa Ana, Calif.	GGST	$3 per quarter-year on less than $5,000, to $105 on $1,000,000.
Savannah, Ga.	LT	Variety stores: $500 per store; plus $35 if soda fountain operated; plus $25 if lunches served; plus $25 if flowers, plants, and shrubbery sold; plus $50 if automobile oil is sold; plus $75 if restaurant operated. Reenacted in 1935.
Spartanburg, S. C.	GGRT	Six classifications of merchants. In each classification a different schedule of taxes is imposed. Effective 1933. Held valid by state supreme court.
Wheeling, W. Va.	GLT	$2 for one store, to $300 on 21 to 30 stores. Filing fee of 50 cents each. Effective Dec. 1, 1933.

Principal source: "Discriminatory Restrictions on Retailing," United States Chamber of Commerce, Washington, D. C., March, 1937. Many items were obtained directly from the respective city attorneys.

a. Symbols:
LT—License Tax (flat rate)
GLT—Graduated License Tax
GGRT—Graduated Gross Receipts Tax
GGST—Graduated Gross Sales Tax
ST—Sales Tax
CST—Chain Store Tax
GRT—Gross Receipts Tax

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